



EMTHANJANI LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2014

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2014

General information

Members of the Council:

ST Sthonga	Mayor
MM Freddie	Speaker
WJ du Plessis	Member
AF Jaftha	Member
J Jood	Member
VG Jonas	Member
MC Kivedo	Member
M Malherbe	Member
GL Nkumbi	Member
GL Nyl	Member
HJ Rust	Member
B Swanepoel	Member
NS Thomas	Member
WA Witbooi	Member

Municipal Manager: I Visser

Chief Financial Officer: MF Manuel

Grading of Local Authority: Grade 2

Auditors: Auditor-General

Bankers: ABSA Bank Limited

Registered Office: 45 Voortrekker Street
De Aar
7000

Physical address: 45 Voortrekker Street
De Aar
7000

Postal address: PO Box 42
De Aar
7000

Telephone number: (053) 632 9100

Fax number: (053) 631 0105

EMTHANJENI LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2014

REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

It gives me great pleasure to present the Annual Financial Statements of Emthanjeni Local Municipality at 30 June 2014.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2013/14 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

The Statement of Financial Position at 30 June 2014 indicates an increase in Net Assets and Non-current Liabilities, and a decrease in Current Liabilities.

The increase in Net Assets is ascribed primarily to the increase in Accumulated Surplus as a result of the surplus generated on the operating account. The increase in Non-current Liabilities is primarily as a result of the increases in Retirement Benefit Liabilities and Long-service Benefits. The decrease in Current Liabilities is primarily as a result of the decrease in Unspent Conditional Grants.

2. KEY FINANCIAL INDICATORS

The following indicators are self-explanatory. The percentages of expenditure categories are well within acceptable norms and indicate good governance of the funds of the municipality.

2.1 Financial Statement Ratios:

INDICATOR	2014	2013
Surplus / (Deficit) before Appropriations	(66 780 777)	(42 685 782)
Surplus / (Deficit) at the end of the Year	956 006 166	1 022 786 943
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	22.60%	25.87%
Remuneration of Councillors	1.57%	1.69%
Collection Costs	0.00%	0.03%
Depreciation and Amortisation	25.69%	31.75%
Impairment Losses	18.08%	5.52%
Repairs and Maintenance	4.38%	3.88%
Interest Paid	0.61%	0.81%
Bulk Purchases	16.42%	17.78%
Contracted Services	2.73%	3.33%
Grants and Subsidies Paid	0.28%	0.14%
General Expenses	7.54%	9.15%
Loss on Disposal of Property, Plant and Equipment	0.00%	0.03%
Loss on Sale of Land	0.08%	0.00%
Inventory Written-off	0.03%	0.02%
Current Ratio:		
Trade Creditors Days	0 days	0 days
Consumer Days	121 days	170 days

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2.2 Performance Indicators:

INDICATOR	2014	2013
Borrowing Management:		
Capital Charges to Operating Expenditure	1.55%	1.85%
Capital Charges to Own Revenue	0.00%	0.00%
Borrowed Funding to Own Capital Expenditure	0.00%	0.00%
Borrowing to Total Capital Assets	0.00%	0.00%
Safety of Capital:		
Gearing	0.34%	0.59%
Liquidity:		
Current Ratio	3.01	3.42
Liquidity Ratio	0.31	0.42
Revenue Management:		
Current Debtors Collection Rate	91.58%	82.01%
Creditors Management:		
Creditors to Cash and Investments	106.30%	66.90%

For detailed ratio analysis and explanation regarding these refer to appendix H attached.

3. OPERATING RESULTS

Details of the operating results per segmental classification of expenditure are included in Appendix D, whilst operational results per category of expenditure, together with an explanation of significant variances of more than 10% from budget, are included in Appendix E (1).

The services offered by Emthanjeni Local Municipality can generally be classified as Rates and General, Economic and Trading Services and are discussed in more detail below.

The overall operating results for the year ended 30 June 2014 are as follows:

DETAILS	Actual 2014 R	Actual 2013 R	Percentage Variance %	Budgeted 2014 R	Variance actual/ budgeted %
Income:					
Opening surplus / (deficit)	1 020 534 150	1 067 251 263	-4%	-	100%
Operating income for the year	198 285 066	175 489 516	13%	-	100%
	1 218 819 216	1 242 740 778		-	
Expenditure:					
Operating expenditure for the year	265 065 843	218 175 297	21%	-	100%
Sundry transfers	-	4 031 331	-100%	-	100%
Closing surplus / (deficit)	953 753 373	1 020 534 150	-7%	-	100%
	1 218 819 216	1 242 740 778		-	

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3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the municipality, excluding those listed below. The main income sources are Assessment Rates and Sundry Fees levied.

DETAILS	Actual 2014 R	Actual 2013 R	Percentage Variance %	Budgeted 2014 R	Variance actual/ budgeted %
Income	81 002 842	64 285 538	26%	65 343 845	24%
Expenditure	(115 985 432)	(97 144 671)	19%	(81 339 456)	43%
Surplus / (Deficit)	(34 982 590)	(32 859 132)		(15 995 611)	
Surplus / (Deficit) as % of total income	(43.19)%	(51.11)%		(24.48)%	

Variance from 2013 actual:

In the current financial year the municipality introduced the 'new' valuation roll which resulted in an increase of Property Rates levied. This together with the Grants and Subsidies realised (conditions met), resulted in the 24% increase.

Variance from 2014 budget:

No material fluctuation was identified between the actual and budgeted revenue figures. The significant increase in the actual expenditure versus the budgeted expenditure is the result in an increase in the provision for doubtful debt and the annual depreciation expense (non-cash flow items).

3.2 Housing Services:

Housing Services are services rendered by the municipality to supply housing to the community and includes the rental of units owned by the municipality to public and staff. The main income source is the levying of Housing Rentals.

DETAILS	Actual 2014 R	Actual 2013 R	Percentage Variance %	Budgeted 2014 R	Variance actual/ budgeted %
Income	1 030 963	1 219 589	-15%	520 177	98%
Expenditure	(4 630 122)	(4 842 947)	-4%	(2 095 671)	121%
Surplus / (Deficit)	(3 599 159)	(3 623 358)		(1 575 494)	
Surplus / (Deficit) as % of total income	(349.11)%	(297.10)%		(302.88)%	

Variance from 2013 actual:

The decrease in the current year figures in comparison to the previous year's actuals are attributable to less Housing Project related expenses being incurred by the municipality. The decrease in revenue is mainly the result of the significant decrease in the Housing Accreditation received during the year.

Variance from 2014 budget:

The increase in the actual expenditure in comparison to the budgeted expenditure is due to the Housing Projects undertaken by the municipality. No material fluctuations were identified between the revenue figures.

3.3 Waste Management Services:

Waste Management Services are services rendered by the municipality for the collection, disposal and purifying of waste (refuse and sewerage). Income is mainly generated from the levying of fees and tariffs determined by the council.

DETAILS	Actual 2014 R	Actual 2013 R	Percentage Variance %	Budgeted 2014 R	Variance actual/ budgeted %
Income	29 854 516	28 208 577	6%	25 138 635	19%
Expenditure	(28 977 635)	(19 193 131)	51%	(18 510 493)	57%
Surplus / (Deficit)	876 882	9 015 447		6 628 142	
Surplus / (Deficit) as % of total income	2.94%	31.96%		26.37%	

Variance from 2013 actual:

No material fluctuations were identified between the revenue figures, whilst the significant increase in the current year's expenditure amount the result is of the significant increase in the provision for bad debts, which were made at yearend.

Variance from 2014 budget:

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No material fluctuations were identified between the revenue figures, whilst the significant increase in the current year's expenditure amount the result is of the significant increase in the provision for bad debts, which were made at yearend.

3.4 Electricity Services:

Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R42 152 616 (2013: R37 634 290). Tariffs levied for electricity are subject to administered adjustments.

DETAILS	Actual 2014 R	Actual 2013 R	Percentage Variance %	Budgeted 2014 R	Variance actual/ budgeted %
Income	60 589 837	52 351 708	16%	67 844 758	-11%
Expenditure	(82 559 386)	(74 675 636)	11%	(55 600 629)	48%
Surplus / (Deficit)	(21 969 548)	(22 323 928)		12 244 129	
Surplus / (Deficit) as % of total income	(36.26)%	(42.64)%		18.05%	

Variance from 2013 actual:

No material fluctuation was identified between the current actual and prior year figures. The increases are attributable to the annual tariff increase, whilst the price per electricity unit purchased also increased in comparison to that of the prior year.

Variance from 2014 budget:

No material fluctuation was identified between the actual and budgeted revenue figures. The significant increase in the current year's expenditure amount the result is of the significant increase in the provision for bad debts, which were made at yearend.

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3.5 Water Services:

Water is purchased from various sources, and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R1 382 964 (2013: R1 147 195). Tariffs levied for water are subject to administered adjustments.

DETAILS	Actual 2014 R	Actual 2013 R	Percentage Variance %	Budgeted 2014 R	Variance actual/ budgeted %
Income	25 603 450	29 105 012	-12%	23 322 007	10%
Expenditure	(32 709 812)	(21 999 822)	49%	(9 952 989)	229%
Surplus / (Deficit)	(7 106 363)	7 105 190		33 274 996	
Surplus / (Deficit) as % of total income	(27.76)%	24.41%		142.68%	

Variance from 2013 actual:

The significant increase in the current year's expenditure amount the result is of the significant increase in the provision for bad debts, which were made at yearend.

Variance from 2014 budget:

No material fluctuation was identified between the actual and budgeted revenue figures. The significant increase in the current year's expenditure amount the result is of the significant increase in the provision for bad debts, which were made at yearend, and the depreciation expense (which was not budgeted for).

4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Assets during the year amounted to R21 457 449 (2013: R13 554 005). Full details of Assets are disclosed in Notes 9, 10, 11 and Appendices "B, C and E (2)" to the Annual Financial Statements.

The capital expenditure of R21 457 449 was financed as follows:

DETAILS	Actual 2014 R	Actual 2013 R	Percentage Variance %	Budgeted 2014 R	Variance actual/ budgeted %
Grants and Subsidies	19 396 197	12 072 248	61%	12 882 000	51%
Own Funds (Accumulated Surplus)	2 061 253	1 481 757	39%	7 951 000	-74%
	21 457 449	13 554 005		20 833 000	

Source of funding as a percentage of Total Capital Expenditure:

DETAILS	2014	2013
Grants and Subsidies	90%	89%
Own Funds (Accumulated Surplus)	10%	11%
	100%	100%

Capital Assets are funded to a great extent from grants and subsidies as the municipality does not have the financial resources to finance infrastructure capital expenditure from its own funds.

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4. RECONCILIATION OF BUDGET TO ACTUAL

4.1 Operating Budget:

DETAILS	2014	2013
<i>Variance per Category:</i>		
Budgeted surplus before appropriations	(10 356 327)	9 278 387
Revenue variances	16 115 644	867 804
Expenditure variances:		
Employee Related Costs	1 822 845	(3 015 011)
Remuneration of Councillors	(440 560)	(190 533)
Collection Costs	1 696 003	(66 492)
Depreciation and Amortisation	(59 614 973)	(61 350 922)
Impairment Losses	(39 304 389)	(5 041 966)
Repairs and Maintenance	8 078 047	2 546 554
Interest Paid	(578 279)	(636 632)
Bulk Purchases	(1 530 855)	2 658 515
Contracted Services	(93 666)	(764 757)
Grants and Subsidies Paid	14 158 307	10 407 320
General Expenses	3 537 544	2 737 196
Loss on disposal of Property, Plant and Equipment	-	(75 338)
Loss on Sale of Land	(203 456)	-
Inventory Written-off	(66 661)	(39 905)
Actual surplus before appropriations	(66 780 777)	(42 685 782)

DETAILS	2014	2013
<i>Variance per Service Segment:</i>		
Budgeted surplus before appropriations	(10 036 275)	9 276 928
Executive and Council	(337 576)	(3 231 711)
Finance and Administration	(1 194 102)	5 674 279
Planning and Development	(10 317 586)	(25 647 370)
Health	(900 567)	(883 667)
Community and Social Services	(9 489 146)	1 365 803
Housing	(2 023 665)	(1 504 515)
Public Safety	17 533 002	4 809 679
Sport and Recreation	367 516	473 971
Environmental Protection	-	-
Waste Management	(5 751 260)	(2 136 660)
Roads and Transport	9 481 424	(2 012 024)
Water	(20 475 381)	(4 342 890)
Electricity	(34 213 677)	(25 094 506)
Other	576 514	566 901
Actual surplus before appropriations	(66 780 778)	(42 685 782)

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with a criptic explanation of significant variances of more than 10% from budget, are included in Appendix "E (1)".

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4.2 Capital Budget:

DETAILS	Actual 2014 R	Actual 2013 R	Variance actual 2014 R	Budgeted 2014 R	Variance actual/ budgeted R
Executive and Council	585 487	86 057	499 429	498 000	87 487
Finance and Administration	199 452	432 344	(232 892)	1 959 000	(1 759 548)
Planning and Development	499 643	5 307	494 336	11 844 000	(11 344 357)
Community and Social Services	62 903	856 104	(793 201)	744 000	(681 097)
Health	-	-	-	21 000	(21 000)
Housing	713 769	1 781	711 988	510 000	203 769
Public Safety	-	293 999	(293 999)	-	-
Sport and Recreation	-	41 775	(41 775)	101 000	(101 000)
Roads and Transport	15 401 315	2 042 735	13 358 580	3 219 000	12 182 315
Electricity	2 313 622	3 145 499	(831 877)	505 000	1 808 622
Waste Management	-	-	-	357 000	(357 000)
Water	1 681 260	6 814 963	(5 133 703)	1 076 000	605 260
	21 457 449	13 720 564	7 736 885	20 834 000	623 449

Details of the results per segmental classification of capital expenditure are included in Appendix "C", together with a criptic explanation of significant variances of more than 10% from budget, are included in Appendix "E (2)".

5. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2014 amounted to R956 006 166 (2013: R1 022 786 943) and is made up as follows:

Capital Replacement Reserve	2 252 793
Accumulated Surplus	953 753 373
	956 006 166

The Capital Replacement Reserve replaces the previous statutory funds, like the Capital Development Fund, and is a cash-backed reserve established to enable the municipality to finance future capital expenditure. Cash contributions, depending on the availability of cash, is made annually to the reserve.

The municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital programme.

Refer to Note 23 and the Statement of Change in Net Assets for more detail.

6. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2014 was R3 230 938 (2013: R8 492 623).

Refer to Note 20 and Appendix "A" for more detail.

7. RETIREMENT BENEFIT LIABILITIES

The outstanding amount of Retirement Benefit Liabilities as at 30 June 2014 was R34 020 228 (2013: R31 352 175).

This liability is in respect of continued Health Care Benefits for employees of the municipality after retirement being members of schemes providing for such benefits. This liability is unfunded.

Refer to Note 21 for more detail.

8. NON-CURRENT PROVISIONS

Non-current Provisions amounted R15 659 850 as at 30 June 2014 (2013: R14 907 044) and is made up as follows:

Provision for Rehabilitation of Land-fill Sites	15 659 850
	15 659 850

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These provisions are made in order to enable the municipality to be in a position to fulfill its known legal obligations when they become due and payable.

Refer to Note 22 for more detail.

9. CURRENT LIABILITIES

Current Liabilities amounted R39 672 457 as at 30 June 2014 (2013: R40 848 232) and is made up as follows:

Consumer Deposits	Note 14	1 949 136
Provisions	Note 15	1 413 504
Payables from Exchange Transactions	Note 16	12 979 185
Payables from Non-exchange Transactions	Note 17	1 552 637
Unspent Conditional Grants and Receipts	Note 18	7 095 267
Bank Overdraft	Note 19	11 924 753
Current Portion of Long-term Liabilities	Note 20	2 757 975
		39 672 457

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

10. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R923 698 642 as at 30 June 2014 (2013: R970 414 689).

Refer to Note 9 and Appendices "B, C and E (2)" for more detail.

11. INTANGIBLE ASSETS

The net value of Intangible Assets were R383 792 as at 30 June 2014 (2013: R538 049).

Intangible Assets are assets which cannot physically be identified and verified and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 10 and Appendix "B" for more detail.

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REPORT OF THE CHIEF FINANCIAL OFFICER**12. INVESTMENT PROPERTY**

The net value of Investment Properties were R5 004 000 as at 30 June 2014 (2013: R5 004 000).

Investment Property is property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of operations.

Refer to Note 11 and Appendix "B" for more detail.

15. NON-CURRENT INVESTMENTS

The municipality held Investments to the value of R21 088 as at 30 June 2014 (2013: 13 980).

Refer to Note 12 for more detail.

15. LONG-TERM RECEIVABLES

Long-term Receivables of R1 164 at 30 June 2014 (2013: R1 164) is made up as follows:

Other Loans	1 164
	<u><u>1 164</u></u>

Refer to Note 13 for more detail.

16. CURRENT ASSETS

Current Assets amounted R119 417 513 as at 30 June 2014 (2013: R139 835 431) and is made up as follows:

Inventories	Note 2	63 059 361
Receivables from Exchange Transactions	Note 3	30 488 661
Receivables from Non-exchange Transactions	Note 4	13 282 995
VAT Receivable	Note 5	344 502
Cash and Cash Equivalents	Note 6	12 210 203
Operating Lease Assets	Note 7	31 791
		<u><u>119 417 513</u></u>

The decrease in the amount for Current Assets is mainly due to the decreased amount held in Bank and Cash Equivalents.

Refer to the indicated Notes for more detail.

17. INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 18 and 25, and Appendix "F" for more detail.

18. EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 57.

19. EXPRESSION OF APPRECIATION

We are grateful to the Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, for without their assistance these Annual Financial Statements would not have been possible.

CHIEF FINANCIAL OFFICER

31 August 2014

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014

		Actual	
	Note	2014 R	2013 R
ASSETS			
Current Assets		119 417 513	139 835 431
Inventories	2	63 059 361	63 424 079
Non-current Assets Held-for-Sale	3	-	71 732
Receivables from Exchange Transactions	4	30 488 661	46 603 596
Receivables from Non-exchange Transactions	5	13 282 995	12 513 934
VAT Receivable	6	344 502	-
Cash and Cash Equivalents	7	12 210 203	17 196 489
Current Portion of Operating Lease Receivables	8	31 791	25 602
Non-Current Assets		929 172 117	976 066 904
Property, Plant and Equipment	9	923 698 842	970 414 689
Intangible Assets	10	383 792	538 049
Investment Property	11	5 004 000	5 004 000
Non-current Investments	12	21 088	13 980
Operating Lease Receivables	8	63 231	95 021
Long-term Receivables	13	1 164	1 164
Total Assets		1 048 589 630	1 115 902 335
LIABILITIES			
Current Liabilities		39 672 457	40 848 232
Consumer Deposits	14	1 949 136	1 825 041
Provisions	15	1 413 504	1 302 291
Payables from Exchange Transactions	16	12 979 185	11 504 617
Payables from Non-exchange Transactions	17	1 552 637	844 342
Unspent Conditional Grants and Receipts	18	7 095 267	12 119 810
VAT Payable	19	-	4 210 806
Bank Overdraft	7	11 924 753	6 556 641
Current Portion of Long-term Liabilities	20	2 757 975	2 484 682
Non-Current Liabilities		52 911 006	52 267 160
Long-term Liabilities	20	3 230 928	6 007 941
Employee Benefits	21	34 020 228	31 352 175
Non-current Provisions	22	15 659 850	14 907 044
Total Liabilities		92 583 463	93 115 391
Total Assets and Liabilities		956 006 166	1 022 786 943
NET ASSETS		956 006 166	1 022 786 943
Accumulated Surplus / (Deficit)	23	956 006 166	1 022 786 943
Total Net Assets		956 006 166	1 022 786 943

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDING 30 JUNE 2014

	Note	Actual 2014 R	2013 R
REVENUE			
Revenue from Non-exchange Transactions			
Property Rates	24	21 035 469	17 220 134
Property Rates - Penalties imposed and collection charges	28	149 924	102 997
Fines		19 521 175	12 611 461
Licences and Permits		1 304 582	1 201 492
Government Grants and Subsidies Received	25	58 854 156	54 961 467
Revenue from Exchange Transactions			
Service Charges	26	91 654 816	79 889 148
Rental of Facilities and Equipment	27	721 563	946 889
Interest Earned - External Investments	28	1 030 475	1 594 930
Interest Earned - Outstanding Debtors	28	625 352	493 738
Other Revenue	29	3 216 352	4 241 129
Other Gains on Continued Operations	39	7 108	1 907 040
Gains on Disposal of Property, Plant and Equipment		164 093	-
Profit on Sale of Land		-	319 091
Total Revenue		198 285 066	175 489 516
EXPENDITURE			
Employee Related Costs	30	59 893 633	56 448 872
Remuneration of Councillors	31	4 157 184	3 693 580
Collection Costs		-	66 492
Depreciation and Amortisation	32	68 084 142	69 274 980
Impairment Losses	33	47 931 544	12 035 046
Repairs and Maintenance		11 610 873	8 470 541
Finance Costs	34	1 607 928	1 758 049
Bulk Purchases	35	43 535 580	38 781 485
Contracted Services	36	7 227 685	7 257 409
Grants and Subsidies Paid	37	750 004	304 870
General Expenses	38	19 997 152	19 968 729
Loss on Disposal of Property, Plant and Equipment		-	75 338
Loss on Sale of Land		203 456	-
Inventory Written-off		66 661	39 905
Total Expenditure		265 065 843	218 175 297
SURPLUS / (DEFICIT) FOR THE YEAR		(66 780 777)	(42 685 782)
Refer to Appendix E(1) for explanation of budget variances			

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2014

Description	Accumulated Surplus / (Deficit)		Total for Accumulated Surplus/(Deficit) Account	Total
	Capital Replacement Reserve	Accumulated Surplus / (Deficit)		
	R	R	R	R
2013				
Balance at 1 July 2012	2 252 793	1 067 251 263	1 069 504 056	1 069 504 056
Change in Accounting Policy (Note 40)	-	-	-	-
Correction of Error (Note 41)	-	(4 031 331)	(4 031 331)	(4 031 331)
Restated Balance	2 252 793	1 063 219 932	1 065 472 725	1 065 472 725
Surplus / (Deficit) for the year	-	(42 685 782)	(42 685 782)	(42 685 782)
Net gains / (losses) not recognised in the Statement of Financial Performance	-	-	-	-
Balance at 30 June 2013	2 252 793	1 020 534 150	1 022 786 943	1 022 786 943
2014				
Balance at 1 July 2013	2 252 793	1 020 534 150	1 022 786 943	1 022 786 943
Surplus / (Deficit) for the year	-	(66 780 777)	(66 780 777)	(66 780 777)
Net gains / (losses) not recognised in the Statement of Financial Performance	-	-	-	-
Balance at 30 June 2014	2 252 793	953 753 373	956 006 166	956 006 166
	-	-	-	-

Details on the movement of the Funds and Reserves are set out in Note 23.

EMTHANJENI LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014

	Note	Actual 2014 R	2013 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Property Rates		17 407 400	13 592 607
Government Grant and Subsidies		53 829 613	55 126 851
Service Charges		86 505 562	66 533 212
Interest Received		1 030 475	1 594 930
Other Receipts		(2 789 785)	12 294 851
Payments			
Employee Related Costs		(56 840 637)	(51 545 930)
Remuneration of Councillors		(4 157 184)	(3 693 580)
Interest Paid		(1 607 928)	(1 758 049)
Suppliers Paid		(83 052 723)	(76 140 814)
Other Payments		2 717 462	870 679
NET CASH FLOWS FROM OPERATING ACTIVITIES	43	<u>13 042 254</u>	<u>16 874 756</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	9	(21 457 369)	(13 758 403)
Purchase of Intangible Assets	10	(92 919)	(63 909)
Purchase of Investment Property	11	-	-
Proceeds on Disposal of Property, Plant and Equipment		519 161	66 142
Profit on Sale of Land		112 594	491 661
Decrease / (Increase) in Operating Lease Assets	8	25 602	78 931
Decrease / (Increase) in Non-current Investments	12	-	-
Decrease / (Increase) in Long-term Receivables	13	-	-
NET CASH FLOWS FROM INVESTING ACTIVITIES		<u>(20 892 931)</u>	<u>(13 185 578)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Borrowings		-	-
Repayment of Borrowings	20	(2 503 720)	(2 274 561)
NET CASH FLOWS FROM FINANCING ACTIVITIES		<u>(2 503 720)</u>	<u>(2 274 561)</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>(10 354 397)</u>	<u>1 414 617</u>
Cash and Cash Equivalents at Beginning of Period		10 639 847	9 225 228
Cash and Cash Equivalents at End of Period		285 450	10 639 847

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2014

30 June 2014

Description	2013/2014									
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of funds	Virement	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R			R	R	R	R	R	R
FINANCIAL POSITION										
Current Assets										
Inventories	43 301 000	-	43 301 000	-	-	43 301 000	63 059 361	19 758 361	46%	46%
Receivables from Exchange Transactions	12 037 000	-	12 037 000	-	-	12 037 000	30 488 661	18 451 661	153%	153%
Receivables from Non-exchange Transactions	8 558 000	-	8 558 000	-	-	8 558 000	13 282 995	4 724 995	55%	55%
VAT Receivable	-	-	-	-	-	-	344 502	344 502	100%	100%
Cash and Cash Equivalents	13 301 000	(3 063 000)	10 238 000	-	-	10 238 000	12 210 203	1 972 203	19%	15%
Operating Lease Receivables	-	-	-	-	-	-	31 791	31 791	100%	100%
Non-Current Assets										
Property, Plant and Equipment	888 993 000	(23 205 000)	865 788 000	-	-	865 788 000	923 698 842	57 910 842	7%	7%
Intangible Assets	1 166 000	-	1 166 000	-	-	1 166 000	383 792	(782 208)	-67%	-67%
Investment Property	4 272 000	-	4 272 000	-	-	4 272 000	5 004 000	732 000	17%	17%
Non-current Investments	177 000	-	177 000	-	-	177 000	21 088	(155 912)	-88%	-88%
Operating Lease Receivables	-	-	-	-	-	-	63 231	63 231	100%	100%
Long-term Receivables	-	-	-	-	-	-	1 164	1 164	100%	100%
Total Assets	971 805 000	(26 268 000)	945 537 000		-	945 537 000	1 048 589 630	103 052 630		
Current Liabilities										
Consumer Deposits	1 899 000	-	1 899 000	-	-	1 899 000	1 949 136	50 136	3%	3%
Provisions	1 920 000	-	1 920 000	-	-	1 920 000	1 413 504	(506 496)	-26%	-26%
Payables	5 924 000	-	5 924 000	-	-	5 924 000	14 531 822	8 607 822	145%	145%
Unspent Conditional Grants and Receipts	1 272 000	-	1 272 000	-	-	1 272 000	7 095 267	5 823 267	458%	458%
VAT Payable	3 470 000	-	3 470 000	-	-	3 470 000	-	(3 470 000)	-100%	-100%
Bank Overdraft	1 251 000	-	1 251 000	-	-	1 251 000	11 924 753	10 673 753	853%	853%
Current Portion of Long-term Liabilities	1 296 000	-	1 296 000	-	-	1 296 000	2 757 975	1 461 975	113%	113%
Non-Current Liabilities										
Long-term Liabilities	10 543 000	-	10 543 000	-	-	10 543 000	3 230 928	(7 312 072)	-69%	-69%
Retirement Benefit Liabilities	29 224 000	-	29 224 000	-	-	29 224 000	34 020 228	4 796 228	16%	16%
Non-current Provisions	3 035 000	-	3 035 000	-	-	3 035 000	15 659 850	12 624 850	416%	416%
Total Liabilities	59 834 000	-	59 834 000	-	-	59 834 000	92 583 463	32 749 463		
Total Assets and Liabilities	911 971 000	(26 268 000)	885 703 000	-	-	885 703 000	956 006 166	70 303 166		
Net Assets (Equity)										
Accumulated Surplus / (Deficit)	911 971 000	(26 268 000)	885 703 000	-	-	885 703 000	956 006 166	70 303 166	8%	8%
Total Net Assets	911 971 000	(26 268 000)			-	885 703 000	956 006 166	70 303 166		
							0	0		

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of funds	Virement	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R			R	R	R	R	R	R
FINANCIAL PERFORMANCE										
Revenue from Non-exchange Transactions										
Property Rates	21 373 000	-	21 373 000	-	-	21 373 000	21 035 469	(337 531)	-2%	-2%
Property Rates - Penalties imposed and collection charge	-	-	-	-	-	-	149 924	149 924	100%	100%
Fines	7 543 000	(2 765 000)	4 778 000	-	-	4 778 000	19 521 175	14 743 175	309%	195%
Licences and Permits	1 230 000	-	1 230 000	-	-	1 230 000	1 304 582	74 582	6%	6%
Grants and Subsidies Received	76 877 000	(23 500 000)	53 377 000	-	-	53 377 000	58 854 156	5 477 156	10%	7%
Revenue from Exchange Transactions										
Service Charges	96 874 000	(5 141 000)	91 733 000	-	-	91 733 000	91 654 816	(78 184)	0%	0%
Rental of Facilities and Equipment	529 000	-	529 000	-	-	529 000	721 563	192 563	36%	36%
Interest Earned - External Investments	792 000	1 000	793 000	-	-	793 000	1 030 475	237 475	30%	30%
Interest Earned - Outstanding Debtors	741 000	(1 000)	740 000	-	-	740 000	625 352	(114 648)	-15%	-15%
Other Income	16 713 000	2 824 000	19 537 000	-	-	19 537 000	3 216 352	(16 320 648)	-84%	-98%
Other Gains on Continued Operations	-	-	-	-	-	-	7 108	7 108	100%	100%
Gains on Disposal of Property, Plant and Equipment	80 000	-	80 000	-	-	80 000	164 093	84 093	105%	105%
Total Revenue	222 752 000	(28 582 000)	194 170 000	-	-	194 170 000	198 285 066	4 115 066		
Expenditure										
Employee Related Costs	59 618 000	1 422 000	61 040 000	-	-	61 040 000	59 893 633	(1 146 367)	-2%	-2%
Remuneration of Councillors	3 918 000	237 000	4 155 000	-	-	4 155 000	4 157 184	2 184	0%	0%
Collection Costs	-	-	-	-	-	-	-	-	0%	0%
Depreciation and Amortisation	8 479 000	(10 000)	8 469 000	-	-	8 469 000	68 084 142	59 615 142	704%	703%
Impairment Losses	8 627 000	-	8 627 000	-	-	8 627 000	47 931 544	39 304 544	456%	456%
Repairs and Maintenance	8 178 000	31 000	8 209 000	-	-	8 209 000	11 610 873	3 401 873	41%	42%
Finance Costs	933 000	97 000	1 030 000	-	-	1 030 000	1 607 928	577 928	56%	62%
Bulk Purchases	44 159 000	(2 154 000)	42 005 000	-	-	42 005 000	43 535 580	1 530 580	4%	3%
Contracted Services	7 026 000	(1 726 000)	5 300 000	-	-	5 300 000	7 227 685	1 927 685	36%	27%
Grants and Subsidies Paid	12 422 000	2 508 000	14 930 000	-	-	14 930 000	750 004	(14 179 996)	-95%	-114%
General Expenses	32 649 000	(2 719 000)	29 930 000	-	-	29 930 000	19 997 152	(9 932 848)	-33%	-30%
Loss on Disposal of Property, Plant and Equipment	-	-	-	-	-	-	-	-	0%	0%
Loss on Sale of Land	-	-	-	-	-	-	203 456	203 456	100%	100%
Inventory Written-off	-	-	-	-	-	-	66 661	66 661	100%	100%
Total Expenditure	186 009 000	(2 314 000)	183 695 000	-	-	183 695 000	265 065 843	81 370 843		
Surplus/(Deficit for the Year)	36 743 000	(26 268 000)	10 475 000	-	-	10 475 000	(66 780 777)	(77 255 777)		

Description	Original Total Budget	Budget Adjustments	Final Adjustmens Budget	Shifting of funds	Virement	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R			R	R	R	R	R	R
CAPITAL EXPENDITURE PER FUNCTION										
Executive and Council	221 000	277 000	498 000	-	-	498 000	585 487	87 487	18%	40%
Finance and Administration	1 959 000	-	1 959 000	-	-	1 959 000	199 452	(1 759 548)	-90%	-90%
Planning and Development	15 344 000	(3 500 000)	11 844 000	-	-	11 844 000	499 643	(11 344 357)	-96%	-74%
Health	21 000	-	21 000	-	-	21 000	-	(21 000)	-100%	-100%
Community and Social Services	728 000	16 000	744 000	-	-	744 000	62 903	(681 097)	-92%	-94%
Housing	-	-	-	-	-	-	713 769	713 769	100%	100%
Public Safety	510 000	-	510 000	-	-	510 000	-	(510 000)	-100%	-100%
Sport and Recreation	101 000	-	101 000	-	-	101 000	-	(101 000)	-100%	-100%
Environmental Protection	-	-	-	-	-	-	-	-	0%	0%
Waste Management	55 000	302 000	357 000	-	-	357 000	-	(357 000)	-100%	-649%
Roads and Transport	3 519 000	(300 000)	3 219 000	-	-	3 219 000	15 401 315	12 182 315	378%	346%
Water	21 076 000	(20 000 000)	1 076 000	-	-	1 076 000	1 681 260	605 260	56%	3%
Electricity	505 000	-	505 000	-	-	505 000	2 313 622	1 808 622	358%	358%
Total Sources of Capital Funds	44 039 000	(23 205 000)	20 834 000	-	-	20 834 000	21 457 449	623 449		
CASH FLOW										
Cash Flows from/(used in) Operating Activities										
Property Rates	125 172 000	13 935 000	139 107 000	-	-	139 107 000	17 407 400	(121 699 600)	-87%	-97%
Grants	76 938 000	(23 561 000)	53 377 000	-	-	53 377 000	53 829 613	452 613	1%	1%
Service Charges	-	-	-	-	-	-	86 505 562	86 505 562	100%	100%
Interest Received	793 000	76 000	869 000	-	-	869 000	1 030 475	161 475	19%	20%
Other Receipts	1 000	239 000	240 000	-	-	240 000	(2 789 785)	(3 029 785)	-1262%	-302978%
Employee Related Costs	(128 441 000)	(19 960 000)	(148 401 000)	-	-	(148 401 000)	(56 840 637)	91 560 363	-62%	-71%
Remuneration of Councillors	-	-	-	-	-	-	(4 157 184)	(4 157 184)	-100%	-100%
Interest Paid	(933 000)	(97 000)	(1 030 000)	-	-	(1 030 000)	(1 607 928)	(577 928)	56%	62%
Suppliers Paid	-	-	-	-	-	-	(83 052 723)	(83 052 723)	-100%	-100%
Other Payments	(13 573 000)	(1 357 000)	(14 930 000)	-	-	(14 930 000)	2 717 462	17 647 462	-118%	-130%
Cash Flows from/(used in) Investing Activities										
Purchase of Property, Plant and Equipment	(20 806 000)	68 000	(20 738 000)	-	-	(20 738 000)	(21 457 369)	(719 369)	3%	3%
Purchase of Intangible Assets	-	-	-	-	-	-	(92 919)	(92 919)	-100%	-100%
Purchase of Investment Property	-	-	-	-	-	-	-	-	0%	0%
Proceeds on Disposal of Property, Plant and Equipment	-	-	-	-	-	-	519 161	519 161	100%	100%
Profit on Sale of Land	-	-	-	-	-	-	112 594	112 594	100%	100%
Decrease / (Increase) in Operating Lease Assets	-	-	-	-	-	-	25 602	25 602	100%	100%
Cash Flows from/(used in) Financing Activities										
Loans repaid	(2 538 000)	-	(2 538 000)	-	-	(2 538 000)	(2 503 720)	34 280	-1%	-1%
Increase / (Decrease) in Short-term Loans	111 000	-	111 000	-	-	111 000	-	(111 000)	-100%	-100%
Cash and Cash Equivalents at End of the Year	36 724 000	(30 657 000)			-	6 067 000	(10 354 397)	(16 421 397)		

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of funds	Virement	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R			R	R	R	R	R	R
Financial Position: Explanation of Variances between Approved Budget and Actual										
Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Position are explained below:										
Inventories: More stores were procured and water stock levels increased during the financial year. In addition to this, management did a full land audit between the financial records and the title deeds and accounted for all land parcels available for sale, resulting in a significant increase.										
Non-current Assets Held-for-Sale: At 30 June 2013, assets had been identified that were sold on auction during July 2013. During the 2013/2014 financial year, the auction took place during June 2014 and no assets were subsequently identified as 'held-for-sale'.										
Receivables from Exchange Transactions: Management is attempting to enforce the Debt and Credit Collection Policy, resulting a significant lower budgeted amount. The results were however not obtained. The increase however remains consistent with that of the previous year and a sufficient provision for doubtful debt was provided for all doubtful consumer debtors, excluding Government Debt. This provision includes all Indigent Debtors.										
VAT Receivable: Management budgeted for a VAT payable at yearend. Due to the significant increase in the impairment provision, the VAT portion of the provision resulted in a receivable being recognised at yearend.										
Cash and Cash Equivalents: Cash control and management by the Finance Department and all managers resulted in the significant increase. Management ensures that sufficient cash is available to cover all short term debt, as well as unspent conditional grants that may exist at yearend.										
Operating Lease Receivables: This movement represents an accounting entry, as required by GRAP 13: Leases, and was not budgeted for.										
Intangible Assets: Due to the amortisation expense during the year. The financial systems used by the Municipality represents a significant portion of the balance and the amortisation expense was higher than expected.										
Investment Property: Management budgeted for an decrease in the value of the property, which did not occur during the year.										
Non-current Investments: The municipality has shares in OVK. These shares were obtained and not acquired and does not form part of the operations. Therefore, no movement or balance was budgeted for.										
Long-term Receivables: Loan (receivable) accounts at OVK. These loans were obtained and not acquired and does not form part of the operations. Therefore, no movement or balance was budgeted for.										
Provisions: An actuarial gain (as determined by the actuaries) resulted in the increase not meeting the expected growth (increase).										
Payables: In prior financial years, the municipality did not recognise any retention fees at yearend. This error was subsequently (and retrospectively) corrected. The aforementioned, with the increase in other creditors resulted in the unexpected increase.										
Unspent Conditional Grants and Receipts: Management anticipated all grant funding to be used for the specific purpose assigned. At yearend however, unspent MIG funding was still available which will be used for capital projects in the next financial year. The municipality is also constructed the electricity line for the new hospital, which has not been finished and the unspent portion remains as unspent.										
VAT Payable: Please refer to 'VAT Receivable' for the supporting explanation.										
Bank Overdraft: At yearend, the municipality paid the Eskom bulk electricity account which had a significant impact on the primary bank account. There are however sufficient funds to ensure the municipality can cover this debt and continue to provide services and pay other creditors. Refer to the Cash and Cash Equivalents increase recorded.										
Current Portion of Long-term Liabilities: Please refer to the explanation provided under the 'Long-term Liabilities'.										
Long-term Liabilities: Management is repaying the Long-term Liabilities quicker than anticipated. Management did not default on any loan payment and have controls in place to ensure these obligations are settled within the agreed period.										
Retirement Benefit Liabilities: The increase is attributable to the variables within the actuarial valuation, which increased resulting in higher than expected interest costs.										
Non-current Provisions: The unexpected increase in the Landfill Site provision recorded in the 2012/2013 financial year, resulted in the lower budgeted amount.										

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Shifting of funds	Virement	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R			R	R	R	R	R	R
Accumulated Surplus / (Deficit): Due to the errors identified during the financial year and the retrospective adjustment thereof.										
Financial Performance: Explanation of Variances between Approved Budget and Actual										
For reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance, are as follow:										
Property Rates - Penalties imposed and collection charges The Property Rates - Penalties is budgeted for with Interest Received. The current classification in the Annual Financial Statements is a GRAP requirement and has therefore been split										
Fines For the 2013/2014 financial year, all fines (irrespective whether they are recoverable) were recognised. The relating debtor was tested for impairment in order to reflect the recoverable amount at yearend.										
Rental of Facilities and Equipment The municipality generated more revenue than budgeted for.										
Interest Earned (all financial statement line items) Improved cash management and diversification of available cash. This is supported in the increase in the Cash and Cash Equivalents balance.										
Other Income: In the 2011/2012 financial year, preliminary figures showed a decrease in the provision for doubtful debt (reversal). This was taken into account during the preparation of the 2013/2014 budget as the 2012/2013 provision (and relating entries) were not calculated (and processed). This did however not realise and resulted in the material fluctuation. Furthermore, the revenue generated from prepaid electricity has been correctly classified.										
Other Gains on Continued Operations Due to the fair value adjustment made to Non-current Investments which were not anticipated and budgeted for.										
Gains on Disposal of Property, Plant and Equipment The proceeds generated by the auctions, together with the proceeds obtained during a trade-in of a municipal vehicle, resulted in the budgeted figures being surpassed.										
Depreciation and Amortisation Due to the gross depreciation effect. The budget reflects the net gross depreciation. The backlog depreciation is specifically excluded from the budgeted figure.										
Impairment Losses: The provision for doubtful debt significantly increased during the year, due to the weaker payment (receipt) ratios calculated on each individual debtor. Additional to this, management recognised all fines issued during the year and this debtor was impaired with R19 895 792.										
Grants and Subsidies Paid The budgeted figure includes all capital expenditure, which has been reclassified to the correct financial statement line items.										
Loss on Sale of Land The Municipality conducted a full land audit (please see the explanation included in the Inventory line item). During the year, a number of properties were transferred to buyers.										
Inventory Written-off The amount written-off is immaterial and therefore management did not budget for it.										
Capital Expenditure: Explanation of Variances between Approved Budget and Actual										
Overall, the fluctuations amounted to +/- 3%. Although the budgeted amounts made provision for costs to be incurred in more departments, these funds were used to, mainly, finance the roads and stormwater project currently in progress at yearend.										
Cash Flow: Explanation of Variances between Approved Budget and Actual										
Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Cash Flow Statement are explained below:										
Debt collection did not have the desired results, which resulted in the fluctuation. This is supported by the fluctuations identified in the Statement of Financial Performance and Position.										

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

1. BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), as approved by the Minister of Finance, including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

1.1 Changes In Accounting Policy And Comparability

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2014 and 30 June 2013, the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an Accounting Policy only in the following instances:

- (a) if it is required by a Standard of GRAP; or
- (b) when it results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.

1.2 Critical Judgements, Estimations And Assumptions

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial

1.2.1 Revenue Recognition

Accounting Policy 13.2 on *Revenue from Exchange Transactions* and Accounting Policy 13.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from non-exchange transactions. In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.2.2 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 9.1 on *Financial Assets Classification* and Accounting Policy 9.2 on *Financial Liabilities Classification* describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: *Financial Instruments*.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

1.2.3 Impairment of Financial Assets

Accounting Policy 9.4 on *Impairment of Financial Assets* describes the process followed to determine the value at which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: *Financial Instruments* and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the reporting period is appropriate.

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors. The total increase in estimation of the impairment of trade and other receivables from exchange transactions is disclosed in note 5 to the AFS.

1.2.4 Useful lives of Property, Plant and Equipment, Intangible assets, Investment property and Heritage assets

As described in Accounting Policies 3.3, 5.2 and 6.2 the municipality depreciates its property, plant and equipment, investment property, heritage assets and amortises its intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.2.5 Impairment: Write down of Property, Plant and Equipment, Investment property, Intangible assets, Heritage assets and Inventories

Accounting Policy 8 on *Impairment of assets* Accounting Policy 11.2 on *Inventory - Subsequent measurement* describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to property, plant and equipment impairment testing, Intangible assets impairment testing and write down of Inventories to the lowest of Cost and Net Realisable Values.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: *Impairment of non-Cash generating Assets* and GRAP 26: *Impairment of Cash generating Assets*. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the Net Realisable Value for inventories involves significant judgment by management. During the year the estimated impairments to property, plant and equipment made are disclosed in note 10 to the AFS, whilst no impairments were made to intangible assets or inventory.

1.2.6 Water inventory

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, where the level indicates the depth of the water in the reservoir, which is then converted into volumes based on the total capacity of the relevant reservoir. Furthermore the length and width of all pipes are also taken into account in determining the volume of water on hand at year-end. Refer to Note 2 of the accounting policy to the Annual Financial Statements.

1.2.7 Defined Benefit Plan Liabilities

As described in Accounting Policy 13, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes 21 to the Annual Financial Statements.

1.2.8 Provisions and contingent liabilities

Provision for Rehabilitation of Refuse Landfill Sites

The Municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost. The cost factors as determined have been applied and projected at an inflation rate of 6% (2013: 6%) and discounted to the present value:

- a) For landfill sites with a remaining operating life of less than 5 years, at the average short term borrowing cost of 5.5% (2013: 5.5%).

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1.2.9 Budget information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the notes to the annual financial statements.

1.3 Presentation Currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the municipality's functional currency.

1.4 Going Concern Assumption

The Annual Financial Statements have been prepared on a going concern basis.

1.5 Offsetting

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.6 Standards, Amendments To Standards And Interpretations Issued But Not Yet Effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting - issued March 2005
GRAP 20 Related Party Disclosures (Revised)
GRAP 32 Service Concession Arrangement Grantor
GRAP 105 Transfers between entities under common control - issued November 2010
GRAP 106 Transfers between entities not under common control - issued November 2010
GRAP 107 Mergers - issued November 2010
GRAP 108 Statutory Receivables

The Minister of Finance announced that the application of GRAP 25 for period starting after 1 April 2013. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

The ASB Directive 5 paragraph 29 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued, but is not yet in effect, an entity may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying paragraph .12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued, but is not yet in effect, in developing an appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

2. NETT ASSETS

Included in the nett assets of the municipality, are the following reserves that are maintained in terms of specific requirements:

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2.1.1 Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the investment policy of the Entity.
- The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment, and may not be used for the maintenance of these items.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.
- If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred via the Statement of Changes in Net Assets to the CRR, provided that it is cash backed. Profit on the sale of land is not transferred to the CRR, as it is regarded as revenue.

3. PROPERTY, PLANT AND EQUIPMENT

3.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

3.2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

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Subsequent to initial recognition property, plant and equipment are carried at a revalued amount based on municipal valuations, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed by external independent valuers with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of Financial Position date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

An increase in the carrying amount of property, plant and equipment as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Statement of Financial Performance.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in the Statement of Financial Performance, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset. Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation.

When revalued assets are sold or retired, the amounts included in the revaluation reserve in respect of that assets, are transferred to the Statement of Changes in Net Assets.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in the Statement of Financial Performance when the compensation becomes receivable.

3.3 Depreciation

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

	Years		Years
Infrastructure		Buildings	30 - 100
Roads and Paving	45 - 50		
Electricity	45 - 50	Other	
Water	15 - 100	Specialist Vehicles	5 - 20
Sewerage	15 - 100	Other Vehicles	5 - 10
Landfill Sites	10 - 65	Office Equipment	3 - 7
		Furniture and Fittings	7 - 10
Community		Watercraft	15
Recreational Facilities	15 - 60	Bins and Containers	5
Security	5	Specialised Plant and Equipment	10 - 15
		Other items of Plant and Equipment	2 - 5

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

3.4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

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3.5 Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

3.6 Land

Land is not depreciated as it is deemed to have an indefinite useful life.

3.7 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

3.8 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in the Statement of Financial Performance when the item is derecognised.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

4. HERITAGE ASSETS

An heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held and preserved indefinitely for the benefit of present and future generations.

4.1 Initial Recognition

The cost of an item of heritage assets is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of heritage assets acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

4.2 Subsequent Measurement

Subsequent expenditure relating to heritage assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all heritage assets are measured at cost, less accumulated impairment losses. Heritage assets are not depreciated.

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4.3 Derecognition of Heritage assets

The carrying amount of an item of heritage assets is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of heritage assets is included in surplus or deficit when the item is derecognised.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of heritage assets.

Transitional provisions

The municipality utilised the transitional provisions under Directive 4, which allows 3 year for the measurement of heritage assets.

5. INTANGIBLE ASSETS

5.1 Initial Recognition

Identifiable non-monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as it is incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is available for use. Development assets are tested for impairment annually, in accordance with GRAP 21 or GRAP 26.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. The cost of an intangible asset acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

5.2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, intangible assets are carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

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In terms of GRAP 31, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives (when the intangible asset is available for use), the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test. The useful lives per category of intangible assets are detailed below:

<i>Intangible asset</i>	<i>Years</i>
Software	3

Intangible assets are annually tested for impairment, including intangible assets not yet available for use, as per Accounting Policy 8: *Impairment of assets*. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

5.3 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

5.4 Transitional provisions

Intangible assets recognised in terms of GRAP 31 have been presented for the financial year ended 30 June 2011 (and retrospectively where practicable) in accordance with the requirements of GRAP 31, GRAP 3 and ASB Directive 4.

6. INVESTMENT PROPERTY

6.1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality);
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties; and
- Property that is being constructed or developed for future use as investment property;

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6.2 Subsequent Measurement - Fair Value Model

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined by external valuers at the date of the last general valuation. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in the Statement of Financial Performance for the period in which it arises.

6.3 Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

7. IMPAIRMENT OF ASSETS

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

7.1 Impairment of Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

An impairment of assets carried at revalued amount in reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

7.2 Impairment of Non-Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

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If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use.

The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
(i) to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

8. FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or residual interests in accordance with the substance of the contractual agreement. The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument

The Entity does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

8.1 Financial Assets - Classification

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another entity.

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

- Financial Asset at fair value
- Financial Asset at fair amortised cost
- Financial Asset at cost

Financial asset at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Financial asset at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

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Financial assets measured at fair value are financial assets that meet either of the following conditions:

- (a) derivatives;
- (b) combined instruments that are designated at fair value
- (c) instruments held for trading.
- (d) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
- (e) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Financial assets measured at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Asset	Classification in terms of GRAP 104
Short-term Investment Deposits – Call	Financial asset at amortised cost
Bank Balances and Cash	Financial asset at amortised cost
Long-term Receivables	Financial asset at amortised cost
Consumer Debtors	Financial asset at amortised cost
Other Debtors	Financial asset at amortised cost
Investments in Fixed Deposits	Financial asset at amortised cost

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: Financial asset at amortised cost.

8.2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

There are three main categories of *Financial Liabilities*, the classification determining how they are measured. Financial liabilities may be measured at:

- (i) Financial liabilities measured at fair value or
- (ii) Financial liabilities measured at amortised cost
- (iii) Financial liabilities measured at cost

The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Liabilities	Classification in terms of GRAP 104
Long term Liabilities	Financial liability at amortised cost
Other Creditors	Financial liability at amortised cost
Bank overdraft	Financial liability at amortised cost
Short-term Loans	Financial liability at amortised cost
Current portion of Long-Term Liabilities	Financial liability at amortised cost

Financial liabilities that are measured at fair value financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives).

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

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8.3 Initial and Subsequent Measurement

8.3.1 Financial Assets:

Financial asset at amortised cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis.

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to Municipality entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as Financial asset at amortised cost.

Financial Assets measured at fair value are initially measured at fair value excluding directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in the Statement of Financial Performance.

Fair value methods and assumptions

The fair values of financial instruments are determined as follows:

The fair values of quoted investments are based on current bid prices.

8.3.2 Financial Liabilities:

Financial liabilities measured at fair value

Financial liabilities measured at fair value are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Financial Liabilities measured at amortised cost

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

8.4 Impairment of Financial Assets

Financial assets, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

Financial assets carried at amortised cost

Accounts receivable encompass long term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

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A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with GRAP 104 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

Impairment of Financial Assets measured at cost

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

8.5 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

8.6 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

9. INVENTORIES

9.1 Initial Recognition

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

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9.2 Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress, [inventories distributed at no charge or for a nominal charge](#) and finished goods are valued at the lower of cost and net realisable value (net amount that an entity expects to realise from the sale on inventory in the ordinary course of business). The cost is determined using the [\(FIFO / weighted average\)](#) cost of commodities.

Water inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the [Statement of Financial Position](#).

The basis of determining the cost of water purchased and not yet sold at [Statement of Financial Position](#) date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the weighted average method, at the lowest of purified cost and net realisable

Unsold properties

Unsold properties are valued at the lower of cost and net realisable value on a FIFO cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Redundant and slow-moving inventories

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

10. NON-CURRENT ASSETS HELD-FOR-SALE

10.1 Initial Recognition

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

10.2 Subsequent Measurement

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held for sale is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

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11. REVENUE RECOGNITION

11.1 General

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

11.2 Revenue from Exchange Transactions

11.2.1 Service Charges

Service charges relating to solid waste, sanitation and sewage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are normally read on a monthly basis and are recognised as revenue when invoiced. Where meters are not read monthly, provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

11.2.2 Pre-paid Electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end based on the average consumption history.

11.2.3 Finance income

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

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Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on trust funds is allocated directly to the fund.
- Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

11.2.4 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

11.2.5 Income from Agency Services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

11.2.6 Sale of Goods (including Houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

11.2.7 Rentals

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

11.2.8 Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

11.3 Revenue from Non-exchange Transactions

An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

11.3.1 Rates And Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

11.3.2 Fines

Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the entity and the amount of the revenue can be measured reliably.

Fines consist of spot fines and summonses. Revenue for fines is recognised when the fine is issued at the full amount of the receivable.

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Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. An entity assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment is not made at the time of initial recognition.

11.3.3 Government Grants And Receipts

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

Conditional Grants and receipts

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

11.3.4 Revenue From Recovery of Unauthorised, Irregular, Fruitless And Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

12. PROVISIONS

Provisions for environmental restoration, rehabilitation, restructuring costs and legal claims are recognised when the municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

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Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Entity's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

13. EMPLOYEE BENEFITS

13.1 Short-Term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

13.2 Post-Employment Benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post-employment plans.

13.2.1 Defined Contribution Plans

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

13.2.2 Defined Benefit Plans

A **defined benefit plan** is a post-employment benefit plan other than a defined contribution plan.

13.3 Post-Retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

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13.4 Long-Service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

13.5 Defined Benefit Pension Plans

The municipality has an obligation to provide Post-retirement pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The Entity contributes monthly to the funds.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

The municipality changed its accounting policy from IAS 19 to GRAP 25 with no effect on the financial information disclosed previously.

14. LEASES

Lease Classification

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

14.1 The Municipality As Lessee

Finance leases

Where the Municipality enters into a finance lease, property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

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Operating leases

The municipality recognises operating lease rentals as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

14.2 The Municipality As Lessor

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

14.3 Determining Whether An Arrangement Contains A Lease

At inception of an arrangement, the Municipality determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Municipality the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Municipality separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Municipality's incremental borrowing rate.

15. BORROWING COSTS

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance in accordance with the requirements of GRAP 5. To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

The municipality ceases to capitalise borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use has been completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

16. GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

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17. VALUE ADDED TAX

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Section 15(2)(a) of the Value-Added Tax Act No 89 of 1991.

18. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

19. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000) and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

20. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

21. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 40 for details of changes in accounting policies.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 41 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

22. RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, Municipal Manager, executive directors and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

The municipality changed its accounting policy from IPSAS 20 to GRAP 20 with no effect on the financial information disclosed previously.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

23. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

24. COMPARATIVE INFORMATION

24.1 Prior Year Comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

24.2 Budget Information

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the notes to the annual financial statements giving firstly reasons for overall growth or decline in the budget and secondly motivations for over- or underspending on line items. The annual budget figures included in the financial statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan. The budget is approved on an accrual basis by nature classification. The approved budget covers the period from [1 July 2013 to 30 June 2014](#).

25. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

26. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

27. CAPITAL COMMITMENTS

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
1. GENERAL INFORMATION		
Emthanjeni Local Municipality (the municipality) is a local government institution in De Aar, Britstown and Hanover, Northern Cape Province, and is one of eight local municipalities under the jurisdiction of the Pixley-ka-Seme District Municipality. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).		
2. INVENTORIES		
Consumables Store	417 715	468 203
Property Stock	62 625 954	62 942 004
Water - at cost	15 692	13 872
Total Inventories	63 059 361	63 424 079

Inventories are held for own use and measured at the lower of cost and current replacement cost. No write downs of Inventory to net realisable value were required.

The cost of water production for the year amounted to R0.76 per kilolitre (2013: R0.68 per kilolitre).

Inventory to the value of R66 661 (2013: R39 905) was written off during the year.

No Inventories have been pledged as collateral for liabilities of the municipality.

3. NON-CURRENT ASSETS HELD-FOR-SALE		
Other Assets Held-for-Sale - at cost	-	71 732
Total Non-current Assets Held-for-Sale	-	71 732
Liabilities associated with Non-current Assets Held-for-Sale	-	-
Net Non-current Assets Held-for-Sale	-	71 732

The municipality intends to dispose of vehicle within the next three months. No impairment loss was recognised on reclassification of the property as held-for-sale on at 30 June 2014.

3.1 Other Assets Held-for-Sale

As described in Note 9, the municipality was seeking to dispose of certain at 30 other assets at 30 June 2013 and anticipated that the disposal will be completed by 31 July 2013. The classes of assets classified as held-for-sale at the balance sheet date are as follows:

Property, Plant and Equipment	-	71 732
Assets classified as Held-for-Sale	-	71 732

4. RECEIVABLES FROM EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2014			
Service Debtors:	72 971 804	(43 377 241)	29 594 563
Electricity	17 064 209	(6 845 832)	10 218 377
Refuse	8 919 664	(5 850 844)	3 068 820
Sewerage	17 452 740	(11 399 087)	6 053 654
Water	29 535 190	(19 281 478)	10 253 713
Other Receivables	2 837 637	(1 943 540)	894 098
Total Receivables from Exchange Transactions	75 809 441	(45 320 781)	30 488 661

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R	
	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2013			
Service Debtors:	78 338 004	(33 051 986)	45 286 018
Electricity	16 920 489	(4 732 895)	12 187 594
Refuse	9 113 114	(3 947 264)	5 165 851
Sewerage	18 182 030	(7 464 719)	10 717 311
Water	34 122 371	(16 907 108)	17 215 263
Other Receivables	2 269 593	(952 015)	1 317 578
Total Receivables from Exchange Transactions	80 607 597	(34 004 001)	46 603 596

The management of the municipality is of the opinion that the carrying value of receivables approximate their fair values.

The fair value of receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and receivables as well as the current payment ratios of the municipality's receivables.

Receivables from Exchange Transactions are billed monthly, latest end of month. No interest is charged on receivables until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of receivables.

Other Receivables include outstanding debtors for various other services, e.g. Arrangements, Deposits, Housing, Interest, Rentals and Sundry Services like Garden Refuse, Sanitation Bags, etc.

The municipality receives applications that it processes. Deposits are required to be paid for all electricity and water accounts opened. There are no consumers who represent more than 5% of the total balance of receivables.

At 30 June 2014, the municipality is owed R4 386 769 by National and Provincial Government.

The municipality did not pledge any of its receivables as security for borrowing purposes.

4.1 Ageing of Receivables from Exchange Transactions

As at 30 June 2014

	Current 0 - 30 days	Past Due 31 - 60 Days	61 - 90 Days	+ 90 Days	Total
Electricity:					
Gross Balances	4 756 157	628 731	516 369	11 162 952	17 064 209
Less: Provision for Impairment	(317 488)	(218 614)	(208 573)	(6 101 157)	(6 845 832)
Net Balances	4 438 669	410 117	307 795	5 061 795	10 218 377
Refuse:					
Gross Balances	578 600	292 155	273 455	7 775 455	8 919 664
Less: Provision for Impairment	(199 875)	(158 243)	(158 336)	(5 334 389)	(5 850 844)
Net Balances	378 724	133 911	115 119	2 441 066	3 068 820
Sewerage:					
Gross Balances	845 810	499 364	478 230	15 629 336	17 452 740
Less: Provision for Impairment	(290 942)	(284 326)	(285 913)	(10 537 906)	(11 399 087)
Net Balances	554 869	215 038	192 317	5 091 430	6 053 654
Water:					
Gross Balances	2 499 297	1 071 971	1 009 232	24 954 690	29 535 190
Less: Provision for Impairment	(709 380)	(675 492)	(721 512)	(17 175 093)	(19 281 478)
Net Balances	1 789 917	396 479	287 720	7 779 597	10 253 713
Other Receivables:					
Gross Balances	108 035	60 464	56 360	2 612 779	2 837 637
Less: Provision for Impairment	(40 203)	(38 317)	(38 288)	(1 826 731)	(1 943 540)
Net Balances	67 832	22 147	18 072	786 047	894 098

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
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2013
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As at 30 June receivables of R23 258 650 were past due but not impaired. The age analysis of these receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:				
Gross Balances	2 552 684	2 333 646	62 135 212	67 021 542
Less: Provision for Impairment	(1 374 993)	(1 412 623)	(40 975 276)	(43 762 892)
Net Balances	1 177 691	921 023	21 159 936	23 258 650

As at 30 June 2013

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Electricity:					
Gross Balances	3 758 836	1 342 803	454 902	11 363 948	16 920 489
Less: Provision for Impairment	(284 866)	(364 522)	(138 644)	(3 944 863)	(4 732 895)
Net Balances	3 473 970	978 281	316 258	7 419 086	12 187 594
Refuse:					
Gross Balances	370 250	477 988	228 492	8 036 384	9 113 114
Less: Provision for Impairment	24 066	(94 847)	(60 576)	(3 815 906)	(3 947 264)
Net Balances	394 316	383 141	167 916	4 220 478	5 165 851
Sewerage:					
Gross Balances	668 246	826 990	395 024	16 291 771	18 182 030
Less: Provision for Impairment	36 633	(163 326)	(102 816)	(7 235 210)	(7 464 719)
Net Balances	704 879	663 663	292 208	9 056 560	10 717 311
Water:					
Gross Balances	1 788 497	1 543 845	807 154	29 982 875	34 122 371
Less: Provision for Impairment	(280 639)	(652 356)	(383 762)	(15 590 351)	(16 907 108)
Net Balances	1 507 858	891 489	423 392	14 392 524	17 215 263
Other Receivables:					
Gross Balances	88 901	104 292	49 231	2 027 169	2 269 593
Less: Provision for Impairment	(18 371)	(37 222)	(19 505)	(876 917)	(952 015)
Net Balances	70 530	67 071	29 725	1 150 252	1 317 578

As at 30 June receivables of R40 452 044 were past due but not impaired. The age analysis of these receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:				
Gross Balances	4 295 918	1 934 802	67 702 147	73 932 867
Less: Provision for Impairment	(1 312 274)	(705 302)	(31 463 247)	(33 480 823)
Net Balances	2 983 644	1 229 499	36 238 900	40 452 044

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R		
4.2 Summary of Receivables from Exchange Transactions by Customer Classification				
	Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
As at 30 June 2014				
<u>Current:</u>				
0 - 30 days	6 931 422	1 209 461	647 015	-
<u>Past Due:</u>				
31 - 60 Days	2 041 406	202 492	308 787	-
61 - 90 Days	2 003 191	131 829	198 625	-
+ 90 Days	56 933 287	1 969 582	3 232 342	-
Sub-total	67 909 306	3 513 365	4 386 769	-
Less: Provision for Impairment	(43 910 382)	(1 410 398)	-	-
Total Trade Receivables by Customer Classification	23 998 924	2 102 967	4 386 769	

	Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
As at 30 June 2013				
<u>Current:</u>				
0 - 30 days	4 115 780	1 550 523	1 348 447	-
<u>Past Due:</u>				
31 - 60 Days	1 891 540	269 188	149 903	-
61 - 90 Days	1 667 573	202 183	115 533	-
+ 90 Days	63 958 836	2 428 512	2 909 581	-
Sub-total	71 633 729	4 450 404	4 523 463	-
Less: Provision for Impairment	(32 912 959)	(1 091 041)	-	-
Total Trade Receivables by Customer Classification	38 720 769	3 359 363	4 523 463	-

4.3 Reconciliation of the Provision for Impairment

Balance at beginning of year	(34 004 000)	(27 272 274)
Impairment Losses recognised	(30 794 670)	(6 731 726)
Impairment Losses reversed	-	-
Amounts written off as uncollectable	19 477 908	-
Amounts recovered	-	-
Balance at end of year	(45 320 762)	(34 004 000)

In determining the recoverability of receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the provision for impairment.

Included in the municipality's receivables balance are debtors with a carrying amount of R23 258 650 (2013: R40 452 044 which are past due at the reporting date for which the municipality has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits (see Note 14), which are not covering the total outstanding debt. The average age of these receivables is 84 days (2013: 85 days).

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits, which are not covering the total outstanding debt and vacant property respectively.

4.4 Ageing of impaired Receivables from Exchange Transactions

<u>Current:</u>		
0 - 30 Days	1 557 888	523 178
<u>Past Due:</u>		
31 - 60 Days	1 374 993	1 312 274
61 - 90 Days	1 412 623	705 302
+ 90 Days	40 975 276	31 463 247
Total	45 320 781	34 004 001

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R **2013**
R

4.5 Derecognition of Financial Assets

No Financial Assets have been transferred to other parties during the year.

5. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2014			
Assessment Rates Debtors	13 518 534	(7 067 368)	6 451 166
Payments Made In Advance	74 698	-	74 698
Sundry Deposits	1 014 610	-	1 014 610
Sundry Debtors	17 629 123	(11 886 601)	5 742 521
Total Receivables from Non-exchange Transactions	32 236 964	(18 953 969)	13 282 995
As at 30 June 2013			
Assessment Rates Debtors	12 419 723	(3 229 774)	9 189 949
Payments Made In Advance	75 335	-	75 335
Sundry Deposits	109 610	-	109 610
Sundry Debtors	8 301 327	(5 162 287)	3 139 040
Total Receivables from Non-exchange Transactions	20 905 995	(8 392 061)	12 513 934

Sundry Deposits are in respect of cash deposits amounting to R64 610 (2013: R59 610) made to fuel station for the supply of fuel, R900 000 (2013: R0) made to Eskom and R50 000 (2013: R50 000) made to the S.A. Post Office for postal services.

Sundry Debtors are in respect of debits outstanding at year-end on normal business transactions entered into by the municipality.

The average credit period for Receivables is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate, charged by the municipality's banker, plus one percent per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of Receivables.

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

The fair value of Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and National / Provincial Departments as well as Other Debtors. The current payment ratios of Other Debtors were also taken into account for fair value determination.

5.1 Ageing of Receivables from Non-exchange Transactions

As at 30 June 2014

	Current 0 - 30 days	Past Due 31 - 60 Days	61 - 90 Days	+ 90 Days	Total
Assessment Rates:					
Gross Balances	928 461	341 548	297 148	11 951 377	13 518 534
Less: Provision for Impairment	(129 195)	(125 964)	(116 372)	(6 695 837)	(7 067 368)
Net Balances	799 266	215 584	180 776	5 255 540	6 451 166
Payments Made in Advance:					
Gross Balances	74 698	-	-	-	74 698
Less: Provision for Impairment	-	-	-	-	-
Net Balances	74 698	-	-	-	74 698
Sundry Deposits:					
Gross Balances	900 000	-	-	114 610	1 014 610
Less: Provision for Impairment	-	-	-	-	-
Net Balances	900 000	-	-	114 610	1 014 610
Sundry Debtors:					
Gross Balances	17 173 989	-	-	455 133	17 629 123
Less: Provision for Impairment	(11 886 601)	-	-	-	(11 886 601)
Net Balances	5 287 388	-	-	455 133	5 742 521

As at 30 June Receivables of R6 221 643 were past due but not impaired. The age analysis of these Receivables are as follows:

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R			2013 R
	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:				
Gross Balances	341 548	297 148	12 521 121	13 159 817
Less: Provision for Impairment	(125 964)	(116 372)	(6 695 837)	(6 938 173)
Net Balances	215 584	180 776	5 825 284	6 221 643

As at 30 June 2013

	Current 0 - 30 days	Past Due			Total
		31 - 60 Days	61 - 90 Days	+ 90 Days	
Assessment Rates:					
Gross Balances	728 852	403 983	150 135	11 136 753	12 419 723
Less: Provision for Impairment	(74 144)	(126 149)	(45 827)	(2 983 654)	(3 229 774)
Net Balances	654 708	277 834	104 308	8 153 099	9 189 949

Payments made in Advance:

Gross Balances	75 335	-	-	-	75 335
Less: Provision for Impairment	-	-	-	-	-
Net Balances	75 335	-	-	-	75 335

Sundry Deposits:

Gross Balances	-	-	-	109 610	109 610
Less: Provision for Impairment	-	-	-	-	-
Net Balances	-	-	-	109 610	109 610

Sundry Debtors:

Gross Balances	7 842 717	-	-	458 610	8 301 327
Less: Provision for Impairment	(5 162 287)	-	-	-	(5 162 287)
Net Balances	2 680 430	-	-	458 610	3 139 040

As at 30 June Receivables of R9 103 461 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:				
Gross Balances	403 983	150 135	11 704 973	12 259 091
Less: Provision for Impairment	(126 149)	(45 827)	(2 983 654)	(3 155 630)
Net Balances	277 834	104 308	8 721 320	9 103 461

5.2 Summary of Assessment Rates Debtors by Customer Classification

	Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
As at 30 June 2014				
<u>Current:</u>				
0 - 30 days	756 558	53 540	118 363	-
<u>Past Due:</u>				
31 - 60 Days	228 778	10 419	102 351	-
61 - 90 Days	184 601	10 419	102 128	-
+ 90 Days	10 602 361	592 557	756 459	-
Sub-total	11 772 297	666 936	1 079 301	-
Less: Provision for Impairment	(6 696 334)	(371 034)	-	-
Total Rates Debtors by Customer Classification	5 075 963	295 902	1 079 301	-

	Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
As at 30 June 2013				
<u>Current:</u>				
0 - 30 days	654 345	54 089	20 418	-
<u>Past Due:</u>				
31 - 60 Days	206 822	6 885	20 931	-
61 - 90 Days	144 706	4 659	19 979	-
+ 90 Days	10 345 453	415 394	526 041	-
Sub-total	11 351 327	481 026	587 369	-
Less: Provision for Impairment	(3 144 454)	(85 321)	-	-
Total Rates Debtors by Customer Classification	8 206 874	395 706	587 369	-

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
5.3 Reconciliation of Provision for Impairment		
Balance at beginning of year	(8 392 061)	(2 370 718)
Impairment Losses recognised	(18 403 377)	(6 021 343)
Impairment Losses reversed	-	-
Amounts written off as uncollectable	7 841 469	-
Amounts recovered	-	-
Balance at end of year	<u>(18 953 969)</u>	<u>(8 392 061)</u>

The Provision for Impairment on Receivables exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Rates Assessment Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

The following Loans and Receivables are included in the total amount of the Provision for Impairment:

Sundry Debtors	-	-
Total Provision for Impairment on Receivables from Non-exchange Transactions	<u>-</u>	<u>-</u>

6. VAT RECEIVABLE

VAT Receivable	<u>344 502</u>	<u>-</u>
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VAT is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

7. CASH AND CASH EQUIVALENTS

Current Investments	11 294 795	17 026 345
Bank Accounts	914 009	168 744
Bank Overdraft	(11 924 753)	(6 556 641)
Cash and Cash Equivalents	1 400	1 400
Total Bank, Cash and Cash Equivalents	<u>285 450</u>	<u>10 639 847</u>

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

7.1 Current Investment Deposits

Call Deposits	772 511	7 098 439
Notice Deposits	10 522 283	9 927 906
Total Current Investment Deposits	<u>11 294 795</u>	<u>17 026 345</u>

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 5.10 % to 5.75 % (2013: 5.00% to 7.50%) per annum.

Notice Deposits are investments with a maturity period of less than 12 months and earn interest rates varying from 5.54% to 5.68% (2013: 5.40% to 6.53%) per annum.

Deposits of R7 574 507 (2013: R12 119 810) are ring-fenced and attributable to Unspent Conditional Grants.

7.2 Bank Accounts

Cash in Bank	914 009	168 744
Bank Overdraft	(11 924 753)	(6 556 641)
Total Bank Accounts	<u>(11 010 744)</u>	<u>(6 387 898)</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
The Municipality has the following bank accounts:		
Primary Bank Account		
ABSA Bank Limited - De Aar Branch - Cheque Account Number 185 000 0081		
Cash book balance at beginning of year	(6 498 375)	(5 154 118)
Cash book balance at end of year	<u>(11 924 753)</u>	<u>(6 497 280)</u>
Bank statement balance at beginning of year	3 897 789	4 271 207
Bank statement balance at end of year	<u>4 984 393</u>	<u>3 897 789</u>
Other Operating Bank Accounts		
Standard Bank of SA Limited - De Aar Branch - Cheque Account Number 2803 50007		
Cash book balance at beginning of year	41 694	2 216
Cash book balance at end of year	<u>44 415</u>	<u>41 694</u>
Bank statement balance at beginning of year	41 494	2 216
Bank statement balance at end of year	<u>44 415</u>	<u>41 494</u>
ABSA Bank Limited - De Aar Branch - Cheque Account Number 4061 685 162		
Cash book balance at beginning of year	127 050	28 918
Cash book balance at end of year	<u>265 684</u>	<u>127 050</u>
Bank statement balance at beginning of year	127 050	28 918
Bank statement balance at end of year	<u>265 684</u>	<u>127 050</u>
ABSA Bank Limited - De Aar Branch - Cheque Account Number 4150 193 474		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	<u>603 910</u>	<u>-</u>
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	<u>603 910</u>	<u>-</u>
Current Investment Accounts		
ABSA Bank Limited - De Aar Branch - Fixed Deposit Account Number 2 052 997 314		
Cash book balance at beginning of year	-	7 784
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	7 784
Bank statement balance at end of year	<u>-</u>	<u>-</u>
ABSA Bank Limited - De Aar Branch - Fixed Deposit Account Number 2 062 198 817		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	<u>-</u>	<u>-</u>
ABSA Bank Limited - De Aar Branch - Fixed Deposit Account Number 2 062 198 906		
Cash book balance at beginning of year	9 925 304	6 070 801
Cash book balance at end of year	<u>10 507 963</u>	<u>9 925 304</u>
Bank statement balance at beginning of year	9 925 304	6 070 801
Bank statement balance at end of year	<u>10 507 963</u>	<u>9 925 304</u>
ABSA Bank Limited - De Aar Branch - Fixed Deposit Account Number 2 062 199 059		
Cash book balance at beginning of year	-	203 339
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	203 339
Bank statement balance at end of year	<u>-</u>	<u>-</u>
ABSA Bank Limited - De Aar Branch - Fixed Deposit Account Number 2 068 494 239		
Cash book balance at beginning of year	2 602	2 442
Cash book balance at end of year	<u>14 321</u>	<u>2 602</u>
Bank statement balance at beginning of year	2 602	2 442
Bank statement balance at end of year	<u>14 321</u>	<u>2 602</u>
ABSA Bank Limited - De Aar Branch - Call Account Number 9 118 567 212		
Cash book balance at beginning of year	1 063	1 014
Cash book balance at end of year	<u>0</u>	<u>1 063</u>
Bank statement balance at beginning of year	1 063	1 014
Bank statement balance at end of year	<u>-</u>	<u>1 063</u>
ABSA Bank Limited - De Aar Branch - Call Account Number 9 168 828 440		
Cash book balance at beginning of year	10 444	10 237
Cash book balance at end of year	<u>0</u>	<u>10 444</u>
Bank statement balance at beginning of year	10 444	10 237
Bank statement balance at end of year	<u>-</u>	<u>10 444</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
ABSA Bank Limited - De Aar Branch - Call Account Number 9 187 848 328		
Cash book balance at beginning of year	0	1 000
Cash book balance at end of year	<u>0</u>	<u>0</u>
Bank statement balance at beginning of year	0	1 000
Bank statement balance at end of year	<u>0</u>	<u>0</u>
ABSA Bank Limited - De Aar Branch - Call Account Number 9 205 814 279		
Cash book balance at beginning of year	(0)	54 859
Cash book balance at end of year	<u>(0)</u>	<u>(0)</u>
Bank statement balance at beginning of year	(0)	54 859
Bank statement balance at end of year	<u>(0)</u>	<u>(0)</u>
ABSA Bank Limited - De Aar Branch - Call Account Number 9 207 882 270		
Cash book balance at beginning of year	-	1 002
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	1 002
Bank statement balance at end of year	<u>-</u>	<u>-</u>
ABSA Bank Limited - De Aar Branch - Call Account Number 9 223 682 147		
Cash book balance at beginning of year	0	1 000
Cash book balance at end of year	<u>0</u>	<u>0</u>
Bank statement balance at beginning of year	0	1 000
Bank statement balance at end of year	<u>0</u>	<u>0</u>
ABSA Bank Limited - De Aar Branch - Call Account Number 9 228 175 838		
Cash book balance at beginning of year	(0)	1 007
Cash book balance at end of year	<u>(0)</u>	<u>(0)</u>
Bank statement balance at beginning of year	(0)	1 007
Bank statement balance at end of year	<u>(0)</u>	<u>(0)</u>
ABSA Bank Limited - De Aar Branch - Call Account Number 9 233 114 081		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	<u>-</u>	<u>-</u>
ABSA Bank Limited - De Aar Branch - Call Account Number 9 222 035 197		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	<u>-</u>	<u>-</u>
ABSA Bank Limited - De Aar Branch - Call Account Number 9 205 813 663		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	<u>-</u>	<u>-</u>
ABSA Bank Limited - De Aar Branch - Call Account Number 9 199 813 620		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	<u>-</u>	<u>-</u>
ABSA Bank Limited - De Aar Branch - Call Account Number 9 197 808 413		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	<u>-</u>	<u>-</u>
Standard Bank of SA Limited - De Aar Branch - Call Account Number 28 891 0672 001		
Cash book balance at beginning of year	5 943	2 607 670
Cash book balance at end of year	<u>6 069</u>	<u>5 943</u>
Bank statement balance at beginning of year	5 943	2 673 620
Bank statement balance at end of year	<u>6 069</u>	<u>5 943</u>
First National Bank - De Aar Branch - Call Account Number 62338612105 / 808		
Cash book balance at beginning of year	2 523	96 720
Cash book balance at end of year	<u>2 582</u>	<u>2 523</u>
Bank statement balance at beginning of year	2 523	96 720
Bank statement balance at end of year	<u>2 582</u>	<u>2 523</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
Nedbank Ltd - Kimberley Branch - Call Account Number 03/7662022900/000001		
Cash book balance at beginning of year	6 521 164	5 222 226
Cash book balance at end of year	<u>730 274</u>	<u>6 521 164</u>
Bank statement balance at beginning of year	6 521 164	5 222 226
Bank statement balance at end of year	<u>730 274</u>	<u>6 521 164</u>
Standard Bank of SA Limited - De Aar Branch - Call Account Number 388910356 - 002		
Cash book balance at beginning of year	557 303	65 950
Cash book balance at end of year	<u>6 282</u>	<u>557 303</u>
Bank statement balance at beginning of year	557 303	65 950
Bank statement balance at end of year	<u>6 282</u>	<u>557 303</u>
Standard Bank of SA Limited - De Aar Branch - Call Account Number 28 891 0672 002		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	<u>27 304</u>	<u>-</u>
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	<u>27 304</u>	<u>-</u>

Interest on overdrawn current accounts are charged at the banker's prime rate plus two percent per annum. Interest is earned at different rates per annum on favourable balances.

7.3 Cash and Cash Equivalents

Cash Floats and Advances	1 400	1 400
Total Cash on hand in Cash Floats, Advances and Equivalents	<u>1 400</u>	<u>1 400</u>

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

The management of the municipality is of the opinion that the carrying value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
8. OPERATING LEASE RECEIVABLES		
Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:		
Balance at beginning of year	120 623	199 554
Operating Lease Revenue recorded	(25 602)	(78 931)
Operating Lease Revenue effected	-	-
Total Operating Lease Assets	95 021	120 623
Less: Amounts due for settlement within 12 months (Current Portion)	(31 791)	(25 602)
Operating Lease Assets due for settlement after 12 months (Non-current Portion)	63 231	95 021

8.1 Leasing Arrangements

The Municipality as Lessor:

Operating Leases relate to Property owned by the municipality with lease terms of between 5 to 11 years, with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

8.2 Amounts receivable under Operating Leases

At the Reporting Date the following minimum lease payments were receivable under Non-cancellable Operating Leases for Property, Plant and Equipment, which are receivable as follows:

Up to 1 year	31 791	25 602
2 to 5 years	63 230	95 021
More than 5 years	-	-
Total Operating Lease Arrangements	95 021	120 623

The impact of charging the escalations in Operating Leases on a straight-line basis over the term of the lease has been a decrease of R25 602 (2013: decrease of R78 931) in current year income.

The following payments have been recognised for Rental Income and Repairs and Maintenance Expense in the Statement of Financial Performance:

Rental Income	153 490	402 351
Repairs and Maintenance	-	-

The following restrictions have been imposed by the municipality in terms of the lease agreements:

- (i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises
- (ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.
- (iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

9. PROPERTY, PLANT AND EQUIPMENT

2014

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Motor Vehicles	Computer Equipment	Furniture and Fittings	Machinery and Equipment	Leased Assets	Total
	R	R	R	R	R		R	R
Carrying values at 30 June 2013	160 801 208	792 567 169	6 075 529	807 542	5 012 560	5 150 682	-	970 414 689
Cost	290 831 143	1 860 426 593	8 806 331	2 664 031	8 855 373	9 108 152	-	2 180 691 623
- Completed Assets	289 622 738	1 826 753 248	8 806 331	2 664 031	8 855 373	9 108 152	-	2 145 809 872
- Under Construction	1 208 405	33 673 346	-	-	-	-	-	34 881 751
Accumulated Impairment Losses	-	-	(174 083)	(2 748)	(20 037)	(5 750)	-	(202 618)
Accumulated Depreciation	(130 029 935)	(1 067 859 424)	(2 556 719)	(1 853 741)	(3 822 776)	(3 951 720)	-	(1 210 074 315)
Acquisitions	264 643	3 994 882	958 604	381 405	94 748	254 769	-	5 949 051
Capital under Construction - Additions	235 000	15 273 319	-	-	-	-	-	15 508 319
Reversals of Impairment Losses	-	-	-	-	-	-	-	-
Depreciation	(11 513 974)	(53 753 108)	(730 061)	(228 963)	(838 613)	(772 246)	-	(67 836 965)
Carrying value of Transfers to Held-for-Sale:	-	-	-	-	-	-	-	-
- Cost	-	-	-	-	-	-	-	-
- Accumulated Impairment Losses	-	-	-	-	-	-	-	-
- Accumulated Depreciation	-	-	-	-	-	-	-	-
Carrying value of Disposals:	-	-	(86 981)	(72 237)	(58 105)	(66 014)	-	(283 336)
- Cost	-	-	(159 265)	(452 591)	(330 003)	(339 819)	-	(1 281 678)
- Accumulated Impairment Losses	-	-	-	-	-	-	-	-
- Accumulated Depreciation	-	-	72 284	380 354	271 898	273 805	-	998 342
Impairment Losses	-	-	(18 235)	(13 301)	(11 584)	(9 795)	-	(52 915)
Capital under Construction - Completed	-	-	-	-	-	-	-	-
Carrying values at 30 June 2014	149 786 877	758 082 261	6 198 856	874 446	4 199 006	4 557 396	-	923 698 842
Cost	291 330 785	1 879 694 794	9 605 670	2 592 846	8 620 118	9 023 102	-	2 200 867 314
- Completed Assets	289 887 380	1 830 748 129	9 605 670	2 592 846	8 620 118	9 023 102	-	2 150 477 245
- Under Construction	1 443 405	48 946 664	-	-	-	-	-	50 390 069
Accumulated Impairment Losses	-	-	(192 318)	(16 049)	(31 621)	(15 545)	-	(255 533)
Accumulated Depreciation	(141 543 909)	(1 121 612 532)	(3 214 496)	(1 702 351)	(4 389 491)	(4 450 160)	-	(1 276 912 939)

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

2013

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Motor Vehicles	Computer Equipment	Furniture and Fittings	Machinery and Equipment	Leased Assets	Total
	R	R	R	R	R		R	R
Carrying values at 30 June 2012	170 743 084	834 430 260	6 905 101	1 152 725	6 288 426	6 365 444	-	2 167 513 144
Cost	289 771 511	1 848 901 469	8 580 432	2 399 902	8 898 853	9 046 174	-	2 167 598 341
- Completed Assets	289 065 514	1 826 352 407	8 580 432	2 399 902	8 898 853	9 046 174	-	2 144 343 282
- Under Construction	705 997	22 549 062	-	-	-	-	-	23 255 059
Accumulated Impairment Losses	-	-	(68 088)	(868)	(14 371)	(1 870)	-	(85 197)
Accumulated Depreciation	(119 028 426)	(1 014 471 209)	(1 607 243)	(1 246 309)	(2 596 056)	(2 678 859)	-	-
Acquisitions	557 224	400 840	280 000	324 654	173 471	127 216	-	1 863 405
Capital under Construction - Additions	502 408	11 124 283	-	-	-	-	-	11 626 691
Reversals of Impairment Losses	-	-	-	-	-	-	-	-
Depreciation	(11 001 508)	(53 388 215)	(973 365)	(649 651)	(1 346 593)	(1 327 442)	-	(68 686 775)
Carrying value of Disposals:	-	-	-	(11 746)	(62 446)	(1 145)	-	(75 338)
- Cost	-	-	-	(22 583)	(113 572)	(6 198)	-	(142 353)
- Accumulated Impairment Losses	-	-	-	-	-	-	-	-
- Accumulated Depreciation	-	-	-	10 837	51 126	5 053	-	67 015
Carrying value of Transfers to Held-for-Sale:	-	-	(30 213)	(2 871)	(29 137)	(9 511)	-	(71 732)
- Cost	-	-	(54 101)	(37 942)	(103 379)	(59 040)	-	(254 462)
- Accumulated Impairment Losses	-	-	-	3 688	5 494	-	-	9 183
- Accumulated Depreciation	-	-	23 888	31 383	68 747	49 529	-	173 547
Impairment Losses	-	-	(105 995)	(5 569)	(11 160)	(3 880)	-	(126 604)
Capital under Construction - Completed	-	-	-	-	-	-	-	-
Carrying values at 30 June 2013	160 801 208	792 567 169	6 075 529	807 542	5 012 560	5 150 682	-	970 414 689
Cost	290 831 143	1 860 426 593	8 806 331	2 664 031	8 855 373	9 108 152	-	2 180 691 623
- Completed Assets	289 622 738	1 826 753 248	8 806 331	2 664 031	8 855 373	9 108 152	-	2 145 809 872
- Under Construction	1 208 405	33 673 346	-	-	-	-	-	34 881 751
Accumulated Impairment Losses	-	-	(174 083)	(2 748)	(20 037)	(5 750)	-	(202 618)
Accumulated Depreciation	(130 029 935)	(1 067 859 424)	(2 556 719)	(1 853 741)	(3 822 776)	(3 951 720)	-	(1 210 074 315)

The leased Property, Plant and Equipment is secured as set out in Note 20.

Refer to Appendices "B, C and E (2)" for more detail on Property, Plant and Equipment, including those in the course of construction.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
9. PROPERTY, PLANT AND EQUIPMENT (Continued)		
9.1 Gross Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use		
There are no Property, Plant and Equipment that is fully depreciated at year-end and still in use by the municipality.		
9.2 Carrying Amount of Property, Plant and Equipment retired from active use and held for disposal		
No Property, Plant and Equipment were retired from active use and held for disposal during the financial		
Motor Vehicles	-	30 213
Computer Equipment	-	2 871
Furniture and Fittings	-	29 137
Machinery and Equipment	-	9 511
Carrying Amount of PPE retired from active use and held for disposal	-	71 732
9.3 Assets pledged as security		
No assets of the municipality have been pledged as security.		
9.4 Impairment of Property, Plant and Equipment		
Impairment Losses on Property, Plant and Equipment to the amount of R0 (2013: R126 604) has been recognised in operating surplus and are included in Impairment Losses in the Statement of Financial Performance as indicated in Note 33.		
The amount disclosed for impairment losses on Property, Plant and Equipment does not include individually material amounts of impairment losses. However, cumulative impairment losses for the following significant account balances are included therein:		
Motor Vehicles	-	174 083
Computer Equipment	-	2 748
Furniture and Fittings	-	20 037
Machinery and Equipment	-	5 750
Total Impairment of Property, Plant and Equipment	-	202 618
The impaired items of Property, Plant and Equipment have been physically damaged, stolen or have become redundant and idle.		
9.5 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed		
There was no change (2013: R0) in the estimated useful life of various assets of the municipality for the financial year.		
9.6 Land and Buildings carried at Fair Value		
The municipality's Land and Buildings are accounted for according to the cost model and therefore no fair value has been determined.		

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
10. INTANGIBLE ASSETS		
At Cost less Accumulated Amortisation and Accumulated Impairment Losses	383 792	538 049
The movement in Intangible Assets is reconciled as follows:		
	Computer Software	Total
Carrying values at 30 June 2013	538 049	538 049
Cost	1 884 661	1 884 661
Accumulated Amortisation	(1 346 611)	(1 346 611)
Acquisitions:	92 919	92 919
Purchased	92 919	92 919
Amortisation:	(247 176)	(247 176)
Purchased	(247 176)	(247 176)
Disposals:	-	-
At Cost	-	-
At Accumulated Amortisation	-	-
Carrying values at 30 June 2014	383 792	383 792
Cost	1 977 579	1 977 579
Accumulated Amortisation	(1 593 787)	(1 593 787)
	Computer Software	Total
Carrying values at 30 June 2012	1 062 346	1 062 346
Cost	1 820 752	1 820 752
Accumulated Amortisation	(758 406)	(758 406)
Acquisitions:	63 909	63 909
Purchased	63 909	63 909
Amortisation:	(588 205)	(588 205)
Purchased	(588 205)	(588 205)
Disposals:	-	-
At Cost	-	-
At Accumulated Amortisation	-	-
Carrying values at 30 June 2013	538 049	538 049
Cost	1 884 661	1 884 661
Accumulated Amortisation	(1 346 611)	(1 346 611)

The amortisation expense has been included in the line item Depreciation and Amortisation in the Statement of Financial Performance (see Note 32).

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

The following restrictions apply to Intangible Assets:

- Financial Software:
 - (i) The system is non-assignable, non-transferable, and the municipality has no exclusive rights to use the system.
 - (ii) The system may be used on only one database at any one time.
 - (iii) The municipality, as the licensee, shall not grant usage of, or distribute, the system in its original or modified form, to a third party for the third party's benefit.
 - (iv) The municipality has no intellectual property rights to the system.

Refer to Appendix "B" for more detail on Intangible Assets.

10.1 Significant Intangible Assets

The municipality has a Financial Accounting System, Abakus, which is material in relation to other intangibles assets recognised. The carrying amount of the software of R244 149 (2013: R425 000).

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R

2013
R

10.2 Intangible Assets with Indefinite Useful Lives

The municipality amortises all its Intangible Assets and no of such assets are regarded as having indefinite useful lives.

The useful lives of the Intangible Assets remain unchanged from the previous year.

Amortisation is charged on a straight-line basis over the Intangible Assets' useful lives.

10.3 Impairment of Intangible Assets

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

11. INVESTMENT PROPERTY

At Fair Value	5 004 000	5 004 000
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The movement in Investment Property is reconciled as follows:

Carrying values at 1 July	5 004 000	3 100 000
Fair Value	5 004 000	3 100 000
Accumulated Impairment Losses	-	-
Acquisitions during the Year	-	-
Net Gains / (Losses) from Fair Value Adjustments	-	1 904 000
Impairment Losses during the Year	-	-
Disposals during the Year:	-	-
At Fair Value	-	-
At Accumulated Impairment	-	-

Carrying values at 30 June	5 004 000	5 004 000
Fair Value	5 004 000	5 004 000
Accumulated Impairment	-	-

Estimated Fair Value of Investment Property at 30 June	5 004 000	5 004 000
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Revenue and Expenditure disclosed in the Statement of Financial Performance include the following:

Rental Revenue earned from Investment Property	-	-
Direct Operating Expenses - incurred to generate rental revenue	-	-
Direct Operating Expenses - incurred which did not generate rental revenue	-	-

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

Refer to Appendix "B" for more detail on Investment Property.

11.1 Investment Property carried at Fair Value

The municipality's Investment Property is valued annually at 30 June at fair value by an independent, professionally qualified, valuer. The valuation, which conforms to International Valuation Standards, is arrived at by reference to market evidence of transaction prices for similar properties.

The following assumptions were used:

Discount Rate	7.80%	6.74%
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11.2 Impairment of Investment Property

No impairment losses have been recognised on Investment Property of the municipality at the reporting date.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
12. NON-CURRENT INVESTMENTS		
Listed		
Listed Shares	21 088	13 980
Total Investments		
All Investments	21 088	13 980
Less: Short-term Portion transferred to Current Investments	-	-
Total Non-current Investments	21 088	13 980
Market valuation of Listed Investments		
Listed Shares	21 088	13 980

Listed Shares are investments in shares of public companies with no specific maturity dates or interest rates.

The management of the municipality is of the opinion that the carrying value of Investments recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Investments was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

13. LONG-TERM RECEIVABLES

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2014			
Other Loans	1 164	-	1 164
	<u>1 164</u>	<u>-</u>	<u>1 164</u>
Less: Current Portion transferred to Current Receivables:-			-
Other Loans			<u>-</u>
Total Long-term Receivables			<u>1 164</u>
	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2013			
Other Loans	1 164	-	1 164
	<u>1 164</u>	<u>-</u>	<u>1 164</u>
Less: Current Portion transferred to Current Receivables:-			-
Other Loans			<u>-</u>
Total Long-term Receivables			<u>1 164</u>

The municipality does not hold deposits or any other security for its Long-term Receivables.

No Long-term Receivables have been pledged as security for the municipality's financial liabilities.

Long-term Receivables are neither past due nor impaired as management have no concerns over the credit quality of these assets.

The management of the municipality is of the opinion that the carrying value of Long-term Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratios of the municipality's debtors.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
13.1 Ageing of Long-term Receivables		
<u>Current:</u>		
0 - 30 days	-	-
<u>Past Due:</u>		
31 - 60 Days	-	-
61 - 90 Days	-	-
91 - 120 Days	-	-
+ 120 Days	1 164	1 164
Total	1 164	1 164

As at 30 June Long-term Receivables of R1 164 (2013: R1 164) were past due but not impaired. No terms for payment have been re-negotiated. The age analysis of these Long-term Receivables is as follows:

31 - 60 Days	-	-
61 - 90 Days	-	-
+ 90 Days	-	-
+ 120 Days	1 164	1 164
Total	1 164	1 164

14. CONSUMER DEPOSITS

Electricity and Water	1 949 136	1 825 041
Total Consumer Deposits	1 949 136	1 825 041

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on Consumer Deposits held.

The management of the municipality is of the opinion that the carrying value of Consumer Deposits approximates their fair values.

The fair value of Consumer Deposits was determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

15. PROVISIONS

Current Portion of Post-retirement Medical Aid Benefits Liability	1 000 584	882 492
Current Portion of Long-term Service	412 920	419 799
Total Provisions	1 413 504	1 302 291

The movement in provisions are reconciled as follows:

Current Portion of Non-Current Provisions:

	Long-term Service R	Post-retirement R
2014		
Balance at beginning of year	419 799	882 492
Contributions to provision	-	118 092
Expenditure incurred	-	-
Balance at end of year	412 920	1 000 584
	Long-term Service R	Post-retirement R
2013		
Balance at beginning of year	-	778 080
Contributions to provision	419 799	104 412
Expenditure incurred	-	-
Balance at end of year	419 799	882 492

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
16. PAYABLES FROM EXCHANGE TRANSACTIONS		
Trade Creditors	715 752	1 397 185
Payments received in Advance	1 852 624	738 817
Retentions	1 286 997	993 780
Staff Bonuses	1 873 069	1 648 427
Sundry Deposits	240 360	212 059
Other Creditors	2 698 912	1 830 329
Department of Housing	0	421 638
Salary Control Account	(0)	445 614
Accrued Leave	4 311 470	3 816 770
Total Payables	12 979 185	11 504 617

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA, except when the liability is disputed. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has policies in place to ensure that all payables are paid within the credit timeframe.

The municipality did default on payment of its creditors. However, no terms for payment have been re-negotiated by the municipality.

The management of the municipality is of the opinion that the carrying value of creditors approximates their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

17. PAYABLES FROM NON-EXCHANGE TRANSACTIONS

Payments received in Advance	1 552 637	844 342
Total Payables	1 552 637	844 342

No credit period exists for Payables from non-exchange transactions, neither has any credit period been arranged. No interest is charged on outstanding amounts.

The municipality did not default on any payment of its creditors. No terms for payment have been re-negotiated by the municipality.

The management of the municipality is of the opinion that the carrying value of creditors approximates their fair values.

The fair value of creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

18. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

18.1 Conditional Grants from Government

National Government Grants	7 095 267	12 119 810
Provincial Government Grants	1 768 757	6 053 160
Local Government Grants	5 287 322	5 793 667
	39 188	272 983

18.2 Other Conditional Receipts

Public Contributions	-	-
	-	-

Total Conditional Grants and Receipts	7 095 267	12 119 810
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The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 25 for the reconciliation of Grants from Government. The Unspent Grants are cash backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Refer to Appendix "F" for more detail on Conditional Grants.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
19. VAT PAYABLE		
VAT Payable	-	4 210 806

VAT is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

20. LONG-TERM LIABILITIES

Annuity Loans	5 988 903	8 492 623
Sub-total	5 988 903	8 492 623
Less: Current Portion transferred to Current Liabilities:	(2 757 975)	(2 484 682)
Annuity Loans	(2 757 975)	(2 484 682)
Total Long-term Liabilities (Neither past due, nor impaired)	3 230 928	6 007 941

20.1 Summary of Arrangements

Annuity Loans are repaid over periods varying from 5 to 10 (2013: 5 to 10) years and at interest rates varying from 9.60% to 12.00% (2013: 9.60% to 12.00%) per annum. Annuity Loans are not secured.

The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Refer to Appendix "A" for more detail on Long-term Liabilities.

20.2 Breach of Loan Agreement

The municipality did not default on any payment of its Long-term Liabilities. No terms for payment have been re-negotiated by the municipality.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
21. EMPLOYEE BENEFITS		
Post-retirement Health Care Benefits Liability	31 349 656	28 838 662
Provision for Long Service Awards	2 670 572	2 513 513
Total Employee Benefits	34 020 228	31 352 175

21.1 Post-retirement Health Care Benefits Liability

Balance at beginning of Year	29 721 154	25 908 685
Contributions to Provision	1 466 239	1 282 656
Increase due to Discounting	2 586 237	2 017 069
Expenditure incurred	(882 492)	(778 080)
Actuarial (Gains) /Losses	(540 898)	1 290 824
Balance at end of Year	32 350 240	29 721 154
Transfer to Current Provisions	(1 000 584)	(882 492)
Total Post-retirement Health Care Benefits Liability	31 349 656	28 838 662

Retirement Benefit Liabilities have been restated to adhere to the disclosure provisions of GRAP 25. Refer to Note 40 on "Change in Accounting Policy" for details of the restatement.

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2014 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service Members (Employees)	53	53
In-service Non-members (Employees)	274	249
Continuation Members (Retirees, widowers and orphans)	30	29
Total Members	357	331

The liability in respect of past service has been estimated as follows:

In-service Members	18 259 872	17 336 007
Continuation Members	14 090 368	12 385 147
Total Liability	32 350 240	29 721 154

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R			
The municipality makes monthly contributions for health care arrangements to the following Medical Aid					
- Bonitas					
- Hosmed					
- Keyhealth					
- LA Health					
- Samwumed					
The Current-service Cost for the year ending 30 June 2014 is estimated to be R1 466 239, whereas the cost for the ensuing year is estimated to be R1 828 833 (2013: R1 466 239 and R1 282 656 respectively).					
The principal assumptions used for the purposes of the actuarial valuations were as follows:					
Discount Rate	9.06%	8.83%			
Health Care Cost Inflation Rate	8.23%	7.65%			
Net Effective Discount Rate	0.76%	1.10%			
Expected Retirement Age - Females	59	59			
Expected Retirement Age - Males	63	63			
Movements in the present value of the Defined Benefit Obligation were as follows:					
Balance at the beginning of the year	29 721 154	25 908 685			
Current service costs	1 466 239	1 282 656			
Interest cost	2 586 237	2 017 069			
Benefits paid	(882 492)	(778 080)			
Actuarial losses / (gains)	(540 898)	1 290 824			
Total Recognised Benefit Liability	32 350 240	29 721 154			
The amounts recognised in the Statement of Financial Position are as follows:					
Present value of fund obligations	32 350 240	29 721 154			
	32 350 240	29 721 154			
Present value of unfunded obligations	-	-			
	32 350 240	29 721 154			
Unfunded Accrued Liability					
Fair value of reimbursement rights recognised	-				
Total Benefit Liability	32 350 240	29 721 154			
The amounts recognised in the Statement of Financial Performance are as follows:					
Current service cost	1 466 239	1 282 656			
Interest cost	2 586 237	2 017 069			
Benefits paid	(882 492)	(778 080)			
Actuarial losses / (gains)	(540 898)	1 290 824			
Total Post-retirement Benefit included in Employee Related Costs (Note 30)	2 629 086	3 812 469			
The history of experienced adjustments is as follows:					
	2014 R	2013 R	2012 R	2011 R	2010 R
Present Value of Defined Benefit Obligation	32 350 240	29 721 154	25 908 685	26 598 730	21 403 686
Deficit	32 350 240	29 721 154	25 908 685	26 598 730	21 403 686
Experienced adjustments on Plan Liabilities	32 891 138	28 430 330	29 078 560	26 598 730	21 403 686
In accordance with the transitional provisions for the amendments to IAS 19 Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2009 reporting period.					
The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:					
Increase:					
Effect on the aggregate of the current service cost and the interest cost	4 839 500	3 940 700			
Effect on the defined benefit obligation	37 942 000	34 607 000			
Decrease:					
Effect on the aggregate of the current service cost and the interest cost	3 427 400	2 790 400			
Effect on the defined benefit obligation	27 846 000	25 768 000			
Refer to Note 51, Multi-employer Retirement Benefit Information, to the Annual Financial Statements for more information regarding the municipality's other retirement funds that is Provincially and Nationally administered					

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
21.2 Provision for Long Service Awards		
	Long-service Awards R	Long-service Awards R
Balance at beginning of year	2 933 312	2 606 021
Contributions to provision	421 885	322 808
Increase due to discounting	192 955	157 132
Expenditure incurred	(419 799)	(239 250)
Actuarial losses (gains)	(44 861)	86 601
	3 083 492	2 933 312
Transfer to current provisions	(412 920)	(419 799)
Balance at end of year	2 670 572	2 513 513
The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.		
The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2014 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.		
At year end, 326 (2013: 299) employees were eligible for Long-service Awards.		
The Current-service Cost for the year ending 30 June 2014 is estimated to be R421 885 (2013: R322 808), whereas the cost for the ensuing year is estimated to be R312 023 (2013: R421 885).		
The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Discount Rate	7.87%	7.08%
Cost Inflation Rate	7.06%	6.70%
Net Effective Discount Rate	0.76%	0.35%
Movements in the present value of the Defined Benefit Obligation were as follows:		
Balance at the beginning of the year	2 933 312	2 606 021
Current service costs	421 885	322 808
Interest cost	192 955	157 132
Benefits paid	(419 799)	(239 250)
Actuarial losses / (gains)	(44 861)	86 601
Present Value of Fund Obligation at the end of the Year	3 083 492	2 933 312
Actuarial losses / (gains) unrecognised	-	-
Total Recognised Benefit Liability	3 083 492	2 933 312
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	3 083 492	2 933 312
	3 083 492	2 933 312
Present value of unfunded obligations	-	-
Unfunded Accrued Liability	3 083 492	2 933 312
Actuarial gains / (losses) not recognised	-	-
Total Benefit Liability	3 083 492	2 933 312
The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	421 885	322 808
Interest cost	192 955	157 132
Benefits paid	(419 799)	(239 250)
Actuarial losses / (gains)	(44 861)	86 601
Total Post-retirement Benefit included in Employee Related Costs (Note 30)	150 180	327 291

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
The history of experienced adjustments is as follows:		
	2014 R	2013 R
Present Value of Defined Benefit Obligation	3 083 492	2 933 312
Deficit	<u>3 083 492</u>	<u>2 933 312</u>

Experienced adjustments on Plan Liabilities	3 128 535	2 933 312	2 606 021
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In accordance with the transitional provisions for the amendments to IAS 19 Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2009 reporting period.

The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:

Increase:		
Effect on the aggregate of the current service cost and the interest cost	649 600	509 600
Effect on the defined benefit obligation	3 274 000	3 109 000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	583 600	453 200
Effect on the defined benefit obligation	2 909 000	2 773 000

The municipality expects to make a contribution of R352 831 (2013: R421 885) to the Defined Benefit Plans during the next financial year.

22. NON-CURRENT PROVISIONS

Provision for Rehabilitation of Land-fill Sites	15 659 850	14 907 044
Total Non-current Provisions	<u>15 659 850</u>	<u>14 907 044</u>
The movement in Non-current Provisions are reconciled as follows:		
	Land-fill Sites R	Land-fill Sites R
Balance at beginning of year	14 907 044	14 190 427
Contributions to provision	-	-
Increase due to discounting	752 806	716 617
	<u>15 659 850</u>	<u>14 907 044</u>
Transfer to current provisions	-	-
Balance at end of year	<u>15 659 850</u>	<u>14 907 044</u>

22.1 Rehabilitation of Land-fill Sites

In terms of the licencing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs of R15 569 849 (2013: R14 907 043) to restore the site at the end of its useful life (estimated to be as disclosed below). Provision has been made for the net present value of this cost, using the average cost of borrowing interest rate.

The provision for rehabilitation are reconciled as follows :

The movement in Non-current Provisions are reconciled as follows:

Landfill site		
Balance at beginning of year	14 907 044	14 190 427
Contributions in current year	-	-
Rehabilitation expenditure during the year	752 806	716 617
Less: Transfer to Current Provisions	-	-
Balance of landfill site	<u>15 659 850</u>	<u>14 907 044</u>

The council will incur rehabilitation cost on its three dumping/landfill sites over the period 2012/13 up to 2018/19. Provision has been made for the net present value of this cost.

	Proposed rehabilitation	2014	2013
De Aar	2036/2037	12 081 738	11 500 941
Britstown	2021/2022	1 375 345	1 309 229
Hanover	2026/2027	2 202 767	2 096 875
		<u>15 659 850</u>	<u>14 907 044</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
23. ACCUMULATED SURPLUS		
The Accumulated Surplus consists of the following Internal Funds and Reserves:		
Capital Replacement Reserve (CRR)	2 252 793	2 252 793
Accumulated Surplus / (Deficit) due to the results of Operations	953 753 373	1 020 534 150
Total Accumulated Surplus	956 006 166	1 022 786 943

The **Capital Replacement Reserve** is a reserve to finance future capital expenditure and is fully invested in ring-fenced Financial Instrument Investments.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

24. PROPERTY RATES

Property Rates	24 597 439	18 124 021
Less: Income Foregone	(3 561 970)	(903 887)
	21 035 469	17 220 134

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2013.

Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions.

An general rate is applied as follows to property valuations to determine property rates:

Residential Properties: 0.0115 c/R (2013: 0.014657 c/R)
State Owned Properties: 0.0150 c/R (2013: 0.014657 c/R)
Business Properties: 0.0117 c/R (2013: 0.014726 c/R)
Agricultural Properties: 0.0029 c/R (2013: 0.003664 c/R)

Rates are levied monthly on property owners and are payable the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is levied at a rate determined by council on outstanding rates amounts.

25. GOVERNMENT GRANTS AND SUBSIDIES

National Equitable Share	34 819 000	34 322 000
Operational Grants	34 819 000	34 322 000
Conditional Grants	24 035 156	20 639 467
National: FMG	1 550 000	1 500 000
National: MIG	13 101 844	11 450 977
National: MSIG	890 000	800 000
National: EPWP	1 233 796	766 204
National: INEP	542 755	-
Provincial: Housing Accreditation	458 333	1 190 227
Provincial: Department of Roads	560 000	-
Provincial: Department of Sports, Arts and Culture (Library Grant)	679 000	682 000
Provincial: Department of Sports, Arts and Culture (Phundalwzi Upgrade)	-	-
Provincial: Department of Health	1 150 332	3 145 499
Provincial: Department of Education	235 000	-
Provincial: Department of Roads	1 829 187	261 359
Provincial: Department of Water Affairs	1 804 910	843 201
Other Spheres of Government: Various Grants	-	-
Total Government Grants and Subsidies	58 854 156	54 961 467
Operational Grants:		
25.1 National: Equitable Share	34 819 000	34 322 000

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy up to R342 (2013: R308), based on the monthly billing, towards the consumer account, which subsidy is determined annually by council. All residential households receive 6 kl water and 50 kWh electricity (indigents only) free every month. No funds have been withheld.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
Conditional Grants:		
25.2 National: FMG		
Balance unspent at beginning of year	-	-
Current year receipts	1 550 000	1 500 000
Conditions met - transferred to Revenue: Operating Expenses	(1 550 000)	(1 500 000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Unspent Conditional Grants (see Note 18)	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns). All conditions attached to the grant were met. No funds have been withheld.

25.3 National: MIG Funds

Balance unspent at beginning of year	6 053 160	4 768 432
Repayment of funds	(5 000 000)	(1 829 000)
Current year receipts	15 324 000	16 141 000
Conditions met - transferred to Revenue: Operating Expenses	(503 240)	-
Conditions met - transferred to Revenue: Capital Expenses	(12 598 604)	(11 450 977)
Conditions met - transferred to Revenue: VAT portion released	(1 763 804)	(1 576 296)
Conditions still to be met - transferred to Unspent Conditional Grants (see Note 18)	1 511 512	6 053 160

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads and sewerage infrastructure as part of the upgrading of previously disadvantaged areas (included in the Roads and Sewerage votes in Appendix "B"). During the year R1 500 000 was withheld and R3 500 000 of the allocated amount was stopped due to slow spending.

At yearend, not all conditions were met in respect to the upgrading of infrastructure as all funds received were not spent. This due to the fact that the required infrastructure has not been completed and no certificates have been presented for payment. This resulted in the unspent portion being recognised at yearend.

25.4 National: MSIG FuNds

Balance unspent at beginning of year	-	-
Current year receipts	890 000	800 000
Conditions met - transferred to Revenue: Operating Expenses	(890 000)	(800 000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Unspent Conditional Grants (see Note 18)	-	-

The Municipal Systems Improvement Grant is allocated to municipalities to improve municipal systems and was used to improve information technology networks and Ward Committee operations. All conditions attached to the grant were met. No funds have been withheld.

25.5 Provincial: Housing Accreditation

Balance unspent at beginning of year	-	-
Current year receipts	458 333	1 190 227
Conditions met - transferred to Revenue: Operating Expenses	(458 333)	(1 190 227)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Unspent Conditional Grants (see Note 18)	-	-

This grant was allocated to improve capacity within the administration of the municipality in respect to the Housing Department. All conditions attached to the grant were met. No funds have been withheld.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
25.6 National: Expanded Public Works Programme (EPWP)		
Balance unspent at beginning of year	233 796	-
Current year receipts	-	1 000 000
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	(1 233 796)	(766 204)
Conditions met - transferred to Revenue: VAT portion released	-	-
Conditions still to be met - transferred to Unspent Conditional Grants (see Note 18)	<u>(1 000 000)</u>	<u>233 796</u>

This grant was used for the upgrading of Roads facilities. All conditions attached to the grant were met. No funds have been withheld.

25.7 Provincial: Department of Sports, Arts and Culture (Phundalwazi Upgrade)

Balance unspent at beginning of year	150 000	150 000
Current year receipts	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions met - transferred to Revenue: VAT portion released	-	-
Conditions still to be met - transferred to Unspent Conditional Grants (see Note 18)	<u>150 000</u>	<u>150 000</u>

This grant was allocated for the upgrade of the Phandulwazi Library in accordance with the submitted business plan. No funds have been withheld.

At yearend, not all conditions were met in respect to the upgrading of the library as all funds received were not spent. This due to the fact that the required infrastructure has not been completed and no certificates have been presented for payment. This resulted in the unspent portion being recognised at yearend.

25.8 Provincial: Department of Sports, Arts and Culture (Library Grant)

Balance unspent at beginning of year	-	-
Current year receipts	679 000	682 000
Conditions met - transferred to Revenue: Operating Expenses	(679 000)	(682 000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions met - transferred to Revenue: VAT portion released	-	-
Conditions still to be met - transferred to Unspent Conditional Grants (see Note 18)	<u>-</u>	<u>-</u>

This grant was allocated for the upgrading of library equipment and operating expenses. All conditions attached to the grant were met. No funds have been withheld.

25.9 Provincial: Department of Health

Balance unspent at beginning of year	3 410 938	6 996 807
Current year receipts	1 500 000	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	(1 150 332)	(3 145 499)
Conditions met - transferred to Revenue: VAT portion released	(161 047)	(440 370)
Conditions still to be met - transferred to Unspent Conditional Grants (see Note 18)	<u>3 599 559</u>	<u>3 410 938</u>

The grant was received for the construction of the electricity lines to the new hospital. All conditions attached to the grant were met. No funds have been withheld.

At yearend, not all conditions were met in respect to the construction of the electricity line as all funds received were not spent. This due to the fact that the required infrastructure has not been completed and no certificates have been presented for payment. This resulted in the unspent portion being recognised at yearend.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
25.10 Provincial: Department of Education		
Balance unspent at beginning of year	-	-
Current year receipts	1 500 000	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	(235 000)	-
Conditions met - transferred to Revenue: VAT portion released	(32 900)	-
Conditions still to be met - transferred to Unspent Conditional Grants (see Note 18)	1 232 100	-

The grant was received for the construction of a new athletics field. All conditions attached to the grant were met. No funds have been withheld.

At yearend, not all conditions were met in respect to the construction of the athletics field as all funds received were not spent. This due to the fact that the required infrastructure has not been completed and no certificates have been presented for payment. This resulted in the unspent portion being recognised at yearend.

25.11 Provincial: Department of Roads

Balance unspent at beginning of year	2 232 729	-
Current year receipts	-	2 500 000
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	(1 829 187)	(261 359)
Conditions met - transferred to Revenue: VAT portion released	(113 500)	(5 911)
Conditions still to be met - transferred to Unspent Conditional Grants (see Note 18)	290 042	2 232 729

This grant was allocated for the construction and upgrading of roads within the Nonzwakazi area. At yearend, not all conditions were met in respect to the revitalization of the roads as all funds received were not spent. This resulted in the unspent portion being recognised at yearend.

25.12 Provincial: Department of Water Affairs

Balance unspent at beginning of year	(0)	-
Current year receipts	2 065 804	950 518
Conditions met - transferred to Revenue: Operating Expenses	(123 970)	(843 201)
Conditions met - transferred to Revenue: Capital Expenses	(1 680 940)	-
Conditions met - transferred to Revenue: VAT portion released	(245 274)	(107 317)
Conditions still to be met - transferred to Unspent Conditional Grants (see Note 18)	15 621	(0)

This grant was used to combat leaks and for the installation of a disinfection system. All conditions attached to the grant were met. No funds have been withheld.

25.13 Provincial: Department of Roads

Balance unspent at beginning of year	-	-
Current year receipts	560 000	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	(560 000)	-
Conditions met - transferred to Revenue: VAT portion released	-	-
Conditions still to be met - transferred to Unspent Conditional Grants (see Note 18)	-	-

This grant was allocated for the construction and upgrading of roads within the municipal boundaries. All conditions attached to the grant were met. No funds have been withheld.

25.14 National: Integrated National Electrification Programme (INEP)

Balance unspent at beginning of year	-	-
Current year receipts	800 000	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	(542 755)	-
Conditions met - transferred to Revenue: VAT portion released	-	-
Conditions still to be met - transferred to Unspent Conditional Grants (see Note 18)	257 245	-

This grant was allocated for the construction and upgrading of electricity networks within the municipal boundaries. All conditions attached to the grant were met. No funds have been withheld.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
25.15 Other Government: Other		
Balance unspent at beginning of year	39 188	39 188
Current year receipts	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions met - transferred to Revenue: VAT portion released	-	-
Conditions still to be met - transferred to Unspent Conditional Grants (see Note 18)	39 188	39 188

The District Municipality allocates funds on an annual basis to ensure that infrastructure is maintained and improved. The grant was utilised for this purpose. All conditions attached to the grant were met. No funds have been withheld.

25.16 Changes in levels of Government Grants

Based on the allocations set out in the Division of Revenue Act, (Act No 2 of 2013), government grant funding is expected to increase over the forthcoming three financial years.

26. SERVICE CHARGES

Sale of Electricity	56 487 600	48 283 962
Sale of Water	18 745 519	16 433 534
Refuse Removal	5 705 360	5 322 955
Sewerage and Sanitation Charges	10 301 577	9 420 520
Other Service Charges	414 759	428 178
Total Service Charges	91 654 816	79 889 148

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

27. RENTAL OF FACILITIES AND EQUIPMENT

Rental Revenue from Halls	81 502	71 068
Rental Revenue from Land	586 428	840 947
Rental Revenue from Other Facilities	53 633	34 873
Total Rental of Facilities and Equipment	721 563	946 889

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

28. INTEREST EARNED

Property Rates:

Penalties imposed and Collection Charges	149 924	102 997
	149 924	102 997

External Investments:

Bank Account	146 833	168 984
Investments	883 642	1 425 946
	1 030 475	1 594 930

Total Interest Received	1 030 475	1 594 930
Interest - Variable Rate Instruments	1 030 475	1 594 930

Outstanding Debtors:

Outstanding Billing Debtors	625 352	493 738
	625 352	493 738

Total Interest Earned	1 805 751	2 191 665
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Interest Earned on Financial Assets, analysed by category of asset, is as follows:

Available-for-Sale Financial Assets	1 030 475	1 594 930
Loans and Receivables	775 276	596 735
	1 805 751	2 191 665
Interest Earned on Non-financial Assets	-	-
	1 805 751	2 191 665

Revenue recognised in respect of Financial Assets designated as at fair value is disclosed in Note 39.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
29. OTHER REVENUE		
Building Plan Fees	62 205	39 961
Grave Fees	256 797	216 767
Sundries Levies	224 052	326 846
Own Income - VAT	2 316 525	2 129 894
Bad Debts Recovered	-	1 158 000
Reconnection Fees	219 587	242 949
Tender Documents	4 300	-
Other non material Income	132 886	126 711
Total Other Revenue	3 216 352	4 241 129

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 24 to 28, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

30. EMPLOYEE RELATED COSTS

Employee Related Costs - Salaries and Wages	42 470 180	38 470 327
Basic Salaries and Wages	38 636 168	34 283 292
Long Service Bonuses	-	97 320
Leave Encashed	366 179	971 017
Service Bonuses	3 467 833	3 118 699
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	9 735 828	8 889 727
Group Life	50 478	60 193
Medical	2 272 783	1 890 632
Pension	6 460 521	6 093 777
Industrial Council Levy	26 264	23 764
Skills Development Levy	513 949	477 750
UIF	411 833	343 611
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	2 537 967	2 325 113
Allowances	2 539 467	2 286 586
Pensioners Allowances	(1 500)	38 526
Housing Benefits and Allowances	108 794	130 410
Overtime Payments	2 261 599	2 111 266
Performance Bonuses	-	382 270
Defined Benefit Plan Expense:	2 779 266	4 139 760
Current Service Cost	1 005 632	827 384
Interest Cost	2 779 192	2 174 201
Benefits Paid	(419 799)	(239 250)
Net Actuarial (gains)/losses recognised	(585 759)	1 377 425
Total Employee Related Costs	59 893 633	56 448 872

No advances were made to employees.

Included in Employee Related Costs is an amount of R6 460 521 (2013: R6 093 777) paid by the municipality to Defined Contribution Plans at rates specified by the rules of the plans.

Remuneration of Section 57 Employees:

Remuneration of the Municipal Manager

Annual Remuneration	828 514	764 134
Performance Bonus	147 037	134 211
Car and Other Allowances	247 008	284 278
Company Contributions to UIF, Medical and Pension Funds	138 842	84 638
Total	1 361 401	1 267 262

Remuneration of the Chief Financial Officer

Annual Remuneration	654 111	767 116
Performance Bonus	151 471	172 575
Car and Other Allowances	262 708	244 814
Company Contributions to UIF, Medical and Pension Funds	125 911	102 216
Total	1 194 201	1 286 720

Remuneration of the Director: Community and Development Services

Annual Remuneration	476 387	428 915
Performance Bonus	72 950	91 132
Car and Other Allowances	128 090	140 446
Company Contributions to UIF, Medical and Pension Funds	135 015	119 842
Total	812 443	780 335

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
Remuneration of the Director: Corporate Services		
Annual Remuneration	591 001	-
Performance Bonus	-	-
Car and Other Allowances	155 520	-
Company Contributions to UIF, Medical and Pension Funds	99 634	-
Total	846 156	-

Remuneration of the Director: Infrastructure and Housing Services		
Annual Remuneration	552 401	726 247
Performance Bonus	103 136	94 418
Car and Other Allowances	140 356	133 842
Company Contributions to UIF, Medical and Pension Funds	102 292	113 402
Total	898 185	1 067 910

The post was vacant from 1 May 2014 to 30 June 2014.

No compensation was payable to key management personnel in terms of GRAP 25 as at 30 June.

31. REMUNERATION OF COUNCILLORS

Mayor	655 551	627 956
Speaker	651 917	509 803
Councillors	1 612 331	1 587 618
Company Contributions to UIF, Medical and Pension Funds	375 086	245 286
Other Allowances (Cellular Phones, Housing, Transport, etc)	862 300	722 918
Total Councillors' Remuneration	4 157 184	3 693 580

Remuneration of Councillors:

In-kind Benefits

The Councillors occupying the positions of Mayor and Speaker. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties.

Councillors may utilise official Council transportation when engaged in official duties.

The Mayor has use of a Council owned vehicle for official duties.

32. DEPRECIATION AND AMORTISATION

Depreciation: Property, Plant and Equipment	67 836 966	68 686 775
Amortisation: Intangible Assets	247 176	588 205
Total Depreciation and Amortisation	68 084 142	69 274 980

33. IMPAIRMENT LOSSES

33.1 Impairment Losses on Fixed Assets

Impairment Losses Recognised:	52 915	126 604
Property, Plant and Equipment	52 915	126 604
Impairment Losses Reversed:	-	-
Property, Plant and Equipment	-	-
	52 915	126 604

33.2 Impairment Losses on Financial Assets

Impairment Losses Recognised:	47 878 629	11 908 443
Receivables from Exchange Transactions	28 924 660	5 887 100
Receivables from Non-exchange Transactions	18 953 969	6 021 343
Impairment Losses Reversed:	-	-
Receivables from Exchange Transactions	-	-
Receivables from Non-exchange Transactions	-	-
	47 878 629	11 908 443
Total Impairment Losses	47 931 544	12 035 046

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
34. FINANCE COSTS		
The municipality did not incur any Finance Cost.		
Bank Overdraft	9 797	9 110
Creditors Overdue	62 123	-
Finance Leases	-	1 539
Current Borrowings	783 203	1 030 783
Non-current Provisions	752 806	716 617
Total Interest Paid on External Borrowings	1 607 928	1 758 049
The weighted average capitalisation rate on funds borrowed generally is 5.27% per annum (2013: 5.24% per annum).		
35. BULK PURCHASES		
Electricity	42 152 616	37 634 290
Water	1 382 964	1 147 195
Total Bulk Purchases	43 535 580	38 781 485
Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst Water is purchased from various sources.		
36. CONTRACTED SERVICES		
Professional Fees	1 821 501	1 932 611
Security Services	2 277 338	1 538 610
Other Contracted Services	3 128 845	3 786 188
Total Contracted Services	7 227 685	7 257 409

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
37. GRANTS AND SUBSIDIES PAID		
Community Projects	546 404	(630)
Other	203 600	305 500
Total Grants and Subsidies	750 004	304 870

38. GENERAL EXPENSES

Included in General Expenses are the following:

Advertising	133 638	190 468
Assessment Rates and Municipal Charges	2 188 433	1 931 898
Audit Fees	2 036 893	1 688 335
Bank Charges	334 543	306 782
Branding of the Municipality	14 438	255 537
Cleaning Materials	105 186	103 459
Conference Fees	60 604	21 274
Driving License Fees	106 153	78 150
Electricity Rural Water Pumps	1 098 306	1 186 049
Entertainment	224 532	119 728
Festivals	-	382 705
Fuel and Oil	3 004 857	2 767 493
Grave Excavations	68 613	85 025
HR Employee Wellness	2 052 590	1 252 098
IDP Review	60 298	7 531
Insurance	1 325 172	968 488
Internal Audit	33 588	11 378
Legal Costs	85 516	106 359
Levies: SALGA	532 714	445 180
License Fees and Subscriptions	286 580	327 737
Lost due to Fraud	-	649 185
Magazines and Reference Work	-	14 330
Motor Vehicle Expenses	139 901	87 369
Printing and Stationery	1 221 562	925 558
Protective Clothing	270 680	490 402
Sundry Expenses	543 317	1 069 732
Strategic Planning Expenses	283 231	210 162
Telephone Cost	1 210 634	1 074 578
Tourism Strategy	227 849	64 891
Training Costs	175 461	(2 294)
Travelling and Subsistence	1 948 659	1 928 521
Water	143 318	796 522
Workmen's Compensation	5 550	322 136
Youth Development Programme	74 334	101 963

Total General Expenses	19 997 152	19 968 729
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38.1 Material Losses	-	649 185
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Lost due to Fraud	-	649 185
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No other extra-ordinary expenses were incurred.

39. OTHER GAINS AND LOSSES

Change in Fair Value of Financial Assets designated as at FVTPL	7 108	3 040
Change in Fair Value of Investment Property	-	1 904 000

Net Other Gains and Losses	7 108	1 907 040
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EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R

2013
R

40. CHANGE IN ACCOUNTING POLICY

The municipality adopted the following Accounting Standards for the first time during the financial year 30 June 2014 in order to comply with the basis of preparation of the Annual Financial Statements as disclosed in Accounting Policy 1:

GRAP 25: Employee Benefits

Defined benefit liabilities for Post-employment Health Care Benefits and Long Service Allowances have been recognised in the Annual Financial Statements of the municipality as at 30 June 2014 in terms of GRAP 25. GRAP 25 is applied prospectively and there is no need for restatement of prior year figures as the principles in GRAP 25 and IAS 19 are similar.

GRAP 31: Intangible Assets

Intangible Assets have been recognised in the Annual Financial Statements of the municipality as at 30 June 2014 in terms of GRAP 31. GRAP 31 is applied prospectively and there is no need for restatement of prior year figures as the principles in GRAP 31 and GRAP 102 are similar.

41. CORRECTION OF ERROR

Corrections were made and adjusted to the Accumulated Surplus Account during the financial years ended 30 June 2013 and 30 June 2014. Details of the adjustments are as follows:

Statement of Financial Position:

Property, Plant and Equipment	970 414 689	971 261 240
Investment Properties	5 004 000	5 004 000
Intangible Assets	538 049	538 049
Non-current Investments	13 980	13 980
Operating Lease Receivables	95 021	95 021
Long-term Receivables	1 164	1 164
Inventories	63 424 079	52 944 866
Non-current Assets Held-for-Sale	71 732	71 732
Receivables from Exchange Transactions	46 603 596	46 603 596
Receivables from Non-exchange Transactions	12 513 934	10 051 549
Cash and Cash Equivalents	17 196 489	17 196 489
Current Portion of Operating Lease Receivables	25 602	25 602
Consumer Deposits	(1 825 041)	(1 825 041)
Provisions	(1 302 291)	(882 492)
Payables from Exchange Transactions	(11 504 617)	(10 019 658)
Payables from Non-exchange Transactions	(844 342)	(844 342)
Unspent Conditional Grants and Receipts	(12 119 810)	(12 541 448)
VAT Payable	(4 210 806)	(4 223 247)
Bank Overdraft	(6 556 641)	(6 498 375)
Current Portion of Long-term Borrowings	(2 484 682)	(2 484 682)
Long-term Liabilities	(6 007 941)	(6 007 941)
Employee Benefits	(31 352 175)	(28 838 662)
Non-current Provisions	(14 907 044)	(8 904 365)
Accumulated Surplus - Opening Balance	(1 069 504 056)	(1 069 504 053)
Accumulated Surplus - Prior Period Error	4 031 329	-
Accumulated Surplus - Surplus (Loss) for the Year	42 685 784	48 767 017
	<u>(0)</u>	<u>(0)</u>

Statement of Financial Performance:

Service Charges	(5 002)
Fines	(7 624 671)
Licences and Permits	59 362
Repairs and Maintenance	(96 439)
General Expenses	65 404
Depreciation and Amortisation	349 581
Impairment Losses	5 162 287
Finance Cost	(2 787 331)
Loss on Disposal of Property, Plant and Equipment	(10 893)
Loss on Sale of Land	(1 193 530)
	<u>(6 081 233)</u>

The details of the reclassifications of correction of errors made are as follows:

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R

2013
R

41.1 Reclassification of Department of Housing debtor (creditor) at yearend

During the 2013/2014 financial year guidance was received that indicated the at the Municipality merely acts as an agent of COGHTA during housing projects. For this reason any outstanding balances at yearend should be recognised as a debtor (where amounts are receivable) or as a creditor (if unspent portions remain) and should not be presented and disclosed as 'Unspent Conditional Grants and Receipts'. The Municipality has subsequently reclassified these balances in the current financial year and retrospectively adjusted these disclosures.

The effect is as follows:

Statement of Financial Position

(Increase) / decrease in Creditors from Exchange Transactions	(421 638)	(421 638)
(Increase) / decrease in Unspent Conditional Grants	421 638	421 638
	<u>-</u>	<u>-</u>

41.2 Reclassification of Long Service Award Provision at yearend

The Long Service Award Provision was previously disclosed as a 'Non-current Provision'. Through a review it was found that this provision is an 'Employee Benefit' (as defined by GRAP 25) as has subsequently been classified as such.

The effect is as follows:

Statement of Financial Position

(Increase) / decrease in Employee Benefits	(2 933 312)	(2 933 312)
(Increase) / decrease in Non-current provisions	2 933 312	2 933 312
	<u>-</u>	<u>-</u>

41.3 Reclassification of the Finance Cost Adjustment of the Non-current Provision

The Finance Cost in respect to the Non-current Provision was previously included in the Repairs and Maintenance' vote. Through a review it was found that this amount should be disclosed as Finance Cost (as required by GRAP 19), resulting in the subsequent reclassification.

Statement of Financial Performance

Increase / (decrease) in Repairs and Maintenance	(716 617)	(716 617)
Increase / (decrease) in Finance Cost	716 617	716 617
	<u>-</u>	<u>-</u>

41.4 Accounting for retention funds at year end

In order to ensure full compliance with the accounting standards and supporting contract agreements, management embarked on a process to identify all retention funds for the financial years presented in the Annual Financial Statements. These adjustments were retrospectively made.

The effect is as follows:

Statement of Financial Position

(Increase) / decrease in Accumulated Surplus	(96 439)	-
Increase / (decrease) in Property, Plant and Equipment	1 090 219	1 090 219
(Increase) / decrease in Creditors from Exchange Transactions	(993 780)	(993 780)

Statement of Financial Performance

Increase / (decrease) in Repairs and Maintenance	(96 439)	
	<u>-</u>	<u>-</u>

41.5 Accruals for the 2013 financial year not previously recorded

During the current financial year, management became aware of accruals that were not previously disclosed. The necessary correction was retrospectively made to the Annual Financial Statements.

The effect is as follows:

Statement of Financial Position

(Increase) / decrease in Accumulated Surplus	64 821	-
Increase / (decrease) in VAT	599	599
(Increase) / decrease in Creditors from Exchange Transactions	(65 420)	(69 542)

Statement of Financial Performance

Increase / (decrease) in General Expenses		68 943
	<u>-</u>	<u>-</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R

2013
R

41.6 Correction of VAT not previously claimed

Management performed a VAT review during the year. It was found that certain input VAT claims were not made by the Municipality during the 2012, 2013 and 2014 financial years. The necessary correction was retrospectively made to the Annual Financial Statements.

The effect is as follows:

Statement of Financial Position

(Increase) / decrease in Accumulated Surplus	(11 842)	(4 396)
Increase / (decrease) in VAT	11 842	11 842

Statement of Financial Performance

(Increase) / decrease in Service Charges		(5 002)
Increase / (decrease) in General Expenses		(2 444)

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41.7 Accounting for cancelled cheques

During the current financial year, a number of cheques were cancelled during the financial year. The necessary correction was retrospectively made to the Annual Financial Statements.

The effect is as follows:

Statement of Financial Position

(Increase) / decrease in Accumulated Surplus	(1 095)	-
Increase / (decrease) in Cash and Cash Equivalents	1 095	1 095

Statement of Financial Performance

Increase / (decrease) in General Expenses		(1 095)
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41.8 Inventory (property-held-for-sale) restated

During the current financial year, management revisited all even registered in the name of the municipality. This resulted in a number of corrections being made, reclassifications being done and valuation adjustments. These adjustments were made retrospectively.

The effect is as follows:

Statement of Financial Position

(Increase) / decrease in Accumulated Surplus	(10 479 213)	(9 285 683)
Increase / (decrease) in Inventory	10 479 213	10 479 213

Statement of Financial Performance

Increase / (decrease) in Loss on Sale of Land		(1 193 530)
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41.9 Property, plant and equipment restated

During the current financial year, management revisited all even registered in the name of the municipality. This resulted in a number of corrections being made, reclassifications being done and valuation adjustments. These adjustments were made retrospectively.

The effect is as follows:

Statement of Financial Position

(Increase) / decrease in Accumulated Surplus	12 205 252	12 359 629
Increase / (decrease) in Property, Plant and Equipment	(12 205 252)	(12 205 252)

Statement of Financial Performance

Increase / (decrease) in Depreciation and Amortisation		(143 484)
Increase / (decrease) in Loss on Disposal of Property, Plant and Equipment		(10 893)

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EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R

2013
R

41.10 Motor registration revenue incorrectly recognised

During the 2013 financial year, receipts were recorded double in the financial records, once as motor registration income. On inspection of the bank reconciliation, it was found that these were transfers from the investment accounts (which were correctly receipted). Management subsequently reversed these receipts.

The effect is as follows:

Statement of Financial Position

(Increase) / decrease in Accumulated Surplus	59 362	-
Increase / (decrease) in Cash and Cash Equivalents	(59 362)	(59 362)

Statement of Financial Performance

(Increase) / decrease in Licences and Permits		59 362
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41.11 Provision for Landfill Sites re-evaluated

Management revisited the method and assumptions used to value the municipality's obligation in respect to the rehabilitation of its landfill sites (to ensure full compliance with GRAP 19 and iGRAP 2). It was found that the previous method that was used was not in full compliance with the Standard, and therefore the valuation was redone. Subsequently, the following adjustments were made retrospectively:

The effect is as follows:

Statement of Financial Position

(Increase) / decrease in Accumulated Surplus	(1 332 491)	961 779
Increase / (decrease) in Property, Plant and Equipment	10 268 481	10 268 481
(Increase) / decrease in Non-current Provisions	(8 935 991)	(8 935 991)

Statement of Financial Performance

Increase / (decrease) in Depreciation Cost		493 062
Increase / (decrease) in Finance Cost		(2 787 331)

	-	-
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41.12 Correction of Fines Revenue and relating Debtor and Impairment provision

Based on the interpretation of iGRAP 1 and guidance issued by National Treasury, management has accounted for all fines issued during the year and the relating debtor and an impairment provision (based on the expected recovery rate). This adjustment has been made retrospectively.

The effect is as follows:

Statement of Financial Position

(Increase) / decrease in Accumulated Surplus	(2 462 384)	-
Increase / (decrease) in Trade Receivables from Non-exchange Transactions	2 462 384	2 462 384

Statement of Financial Performance

(Increase) / decrease in Fines		(7 624 671)
Increase / (decrease) in Impairment Losses		5 162 287

	-	-
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EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
42. CHANGE IN ACCOUNTING ESTIMATES		
There was no change in the estimated useful life of various assets (liabilities) of the municipality for the financial year.		
43. CASH GENERATED BY OPERATIONS		
Surplus / (Deficit) for the Year	(66 780 777)	(42 685 782)
Adjustment for:		
Correction of Prior Year Errors	-	(1 096 720)
Depreciation and Amortisation	68 084 142	69 274 980
Impairment Losses on Property, Plant and Equipment	52 915	126 604
Losses / (Gains) on Disposal of Property, Plant and Equipment	(164 093)	75 338
Fair Value adjustment of Investment Property	-	(1 904 000)
Fair Value adjustment of Non-current Investment	(7 108)	(3 040)
Profit on Sale of Land	203 456	(319 091)
Contribution to Retirement Benefit Liabilities	2 779 266	4 139 766
Contribution to Non-current Provisions	752 806	716 617
Bad Debts Written-off	-	-
Operating surplus before working capital changes	4 920 606	28 324 673
Decrease/(Increase) in Inventories	48 668	(117 254)
Decrease/(Increase) in Receivables from Exchange Transactions	16 114 935	(8 242 745)
Decrease/(Increase) in Receivables from Non-exchange Transactions	(769 061)	(4 725 171)
Increase/(Decrease) in Consumer Deposits	124 095	43 082
Increase/(Decrease) in Payables from Exchange Transactions	1 474 568	(168 504)
Increase/(Decrease) in Payables from Non-exchange Transactions	708 295	(248 628)
Increase/(Decrease) in Conditional Grants and Receipts	(5 024 544)	165 383
Increase/(Decrease) in VAT Payable	(4 555 308)	1 843 921
Cash generated by / (utilised in) Operations	13 042 255	16 874 758
44. NON-CASH INVESTING AND FINANCING TRANSACTIONS		
The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2014 financial year.		
45. FINANCING FACILITIES		
Unsecured Bank Overdraft Facility, reviewed annually and payable at call:		
- Amount used	-	-
- Amount unused	1 000 000	1 000 000
	1 000 000	1 000 000
Unsecured Credit Card Facility, reviewed annually and payable monthly:		
- Amount used	-	-
- Amount unused	50 000	50 000
	50 000	50 000
Unsecured Fleet Card Facility, reviewed annually and payable monthly:		
- Amount used	-	-
- Amount unused	800 000	800 000
	800 000	800 000

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
46. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION		
Long-term Liabilities (See Note 20)	5 988 903	8 492 623
Used to finance Property, Plant and Equipment - at cost	(5 988 903)	(8 492 623)
Sub-total	-	-
Cash set aside for the Repayment of Long-term Liabilities	-	-
Cash invested for Repayment of Long-term Liabilities	-	-

Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash is available to ensure that Long-term Liabilities can be repaid on the scheduled redemption dates.

47. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

47.1 Unauthorised Expenditure

To management's best of knowledge no Unauthorised Expenditure was incurred during the year under

Reconciliation of Unauthorised Expenditure:

Opening balance	-	55 530 424
Unauthorised Expenditure current year	95 735 235	54 229 999
Approved by Council or condoned	-	(109 760 423)
Unauthorised Expenditure awaiting authorisation	191 470 470	-

Incident	Disciplinary Steps / Criminal Proceedings
<i>Budgeted votes exceeded:-</i>	<i>To be condoned by Council</i>
Executive and Council: R3 186 638	
Finance and Administration: R2 094 284	
Planning and Development: R8 645 803	
Community and Social Services: R10 529 851	
Housing: R2 534 451	
Waste Management: R10 824 142	
Roads: R6 623 486	
Water: R23 832 823	
Electricity: R27 463 757	

The above Unauthorised Expenditure is mainly attributable to Depreciation and Amortisation (Note 32) and Impairment Losses (Note 33). These items are "non-cash items" and does not represent any cash flow, which resulted in the Municipality not budgeting for these expenses.

A recalculation done by management, adjusting the expenditure with the Depreciation and Amortisation and Impairment Losses (as disclosed) indicated that the only votes overspend were the 'Executive and Council' (R2 995 189) and 'Housing' (R243 566) votes.

47.2 Fruitless and Wasteful Expenditure

Reconciliation of Fruitless and Wasteful expenditure:

Opening balance	798 860	-
Fruitless and Wasteful Expenditure current year	73 356	798 860
Condoned or written off by Council	-	-
Fruitless and Wasteful Expenditure awaiting condonement	872 216	798 860

Incident	Disciplinary Steps / Criminal Proceedings
<i>The fruitless and wasteful expenditure identified was inspected and it can be categorised as follows:</i>	
Interest paid on outstanding creditors not paid within the required timeframe: R61 831	
Wages amounting to R11 525 were overpaid during the current financial year. This amount represents those overpayments that could not be recovered as the workers have left the employment of the municipality before the discovery of the overpayment.	

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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R

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47.3 Irregular Expenditure

Reconciliation of Irregular Expenditure:

Opening balance	39 350 217	16 257 924
Irregular Expenditure current year	13 140 889	23 092 293
Condoned or written off by Council	-	-
Irregular Expenditure awaiting condonement	<u>52 491 107</u>	<u>39 350 217</u>

Incident	Disciplinary Steps / Criminal Proceedings
<i>The irregular expenditure identified was inspected and it can be categorised as follows:</i>	
The required number of quotations (3) were not obtained. These items were also not reported to council as a deviation during the financial year and is therefore irregular = R863 400.	
Tax clearance certificates are not in place for certain costs incurred above R15 000. This is an administrative weakness that has lead to irregular expenditure (as defined) and in no way has funds been misappropriated = R2 519 156.	
MBD 4 forms (declaration of interests) are not in place for certain costs incurred above R10 000. This is an administrative weakness that has lead to irregular expenditure (as defined) and in no way has funds been misappropriated = R6 974 596.	
MBD 1 forms are not in place for certain costs incurred above R10 000. This is an administrative weakness that has lead to irregular expenditure (as defined) and in no way has funds been misappropriated = R2 644 721.	
Payments amounting to R66 673 were made to supplier after the maintenance contract had expired.	
The municipality incurred payments totalling R101 293 to attorneys, which were not procured through the SCM Policy.	

48. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

48.1 Contributions to organised local government - SALGA

Opening Balance	-	-
Council Subscriptions	549 386	445 180
Amount Paid - current year	(549 386)	(445 180)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	<u>-</u>	<u>-</u>

48.2 Audit Fees

Opening Balance	-	-
Current year Audit Fee	2 036 893	1 686 335
Amount Paid - current year	(2 036 893)	(1 686 335)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	<u>-</u>	<u>-</u>

48.3 VAT

The net of VAT input payables and VAT output receivables are shown in Notes 7 and 19. All VAT returns have been submitted by the due date throughout the year.

48.4 PAYE, Skills Development Levy and UIF

Opening Balance	445 612	-
Current year Payroll Deductions	6 793 909	6 055 857
Amount Paid - current year	(6 793 909)	(5 610 245)
Amount Paid - previous years	(445 612)	-
Balance Unpaid (included in Creditors)	<u>-</u>	<u>445 612</u>

48.5 Pension and Medical Aid Deductions

Opening Balance	-	-
Current year Payroll Deductions and Council Contributions	12 296 351	12 005 713
Amount Paid - current year	(12 296 351)	(12 005 713)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	<u>-</u>	<u>-</u>

48.6 Councillor's arrear Consumer Accounts

During the financial year under review no Councillor (present or past) was in arrear with the settlement of their municipal accounts.

The following Councillors had arrear accounts outstanding for more than 90 days as at:

2014	Total	Outstanding up to 90 days	Outstanding more than 90 days
Councillor Kivedo MC	14 795	4 469	10 326
Councillor Jaftha AF	4 759	3 820	939
Total Councillor Arrear Consumer Accounts	<u>19 554</u>	<u>8 289</u>	<u>11 265</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

		2014 R	2013 R
	Total	Outstanding up to 90 days	Outstanding more than 90 days
2013			
Councillor Kivedo MC	10 069	482	9 587
Councillor Jood J	311	487	(176)
Councillor Witbooi WA	2 840	1 156	1 683
Total Councillor Arrear Consumer Accounts	13 219	2 125	11 094

During the year the following Councillors had arrear accounts outstanding for more than 90 days:

	Highest amount outstanding	Ageing
2014		
Councillor Kivedo MC	10 326	> 90 Days
Councillor Jaftha AF	1 180	> 90 Days

	Highest amount outstanding	Ageing
2013		
Councillor Kivedo MC	12 115	> 90 Days
Councillor Jood J	1 021	> 90 Days
Councillor Witbooi WA	2 464	> 90 Days

48.7 Non-Compliance with Chapter 11 of the Municipal Finance Management Act

The municipality has developed a supply chain management policy which was only approved by Council in September 2005. This policy is reviewed No known matters existed at reporting date.

48.8 Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager and noted by Council.

The majority of the items mentioned resulted from the municipality not being able to obtain the required 3 quotations, due various reasons of which the following is the most common:

- Only 2 suppliers are registered on the municipal database that can do the work;
- Only service provider within a 300km radius;
- Advertising required in the local newspaper; and
- Only 1 or 2 quotations received.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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The following deviations from the stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

Successful tenderer	Month	Reasons	1 quotation	2 quotations
Various suppliers	July 2013	In most instances, only one (1) local supplier could provide the municipality with the required goods. During July 2013, R20 000 was paid to Konica Minolta for the procurement of the machine, previously leased and R29 486 to Komatsu for the procurement of genuine parts.	71 727	-
Various suppliers	August 2013	R87 000 of the deviated total is represented by three payments made to sole providers (Active Phambili Civils and Rocla). The remaining deviations is the result of only one (1) of two (2) local suppliers being able to provide the required goods.	120 470	30 185
Various suppliers	September 2013	R81 000 was paid during the month to De Aar Stone Crushers, which is the only local supplier of stone in the area. The remaining deviations is the result of only one (1) of two (2) local suppliers being able to provide the required goods.	112 801	2 700
Various suppliers	October 2013	R60 000 of the deviated total is represented by payments made to sole providers (Rocla). In the majority of instances, no more than one (1) supplier could submit quotations to the municipality.	211 957	15 924
Various suppliers	November 2013	In most instances, only two (2) service providers were able to meet the needs of the municipality. AAS Operation were paid R26 806 for procurement of which they were the only suppliers locally.	59 876	38 157
Various suppliers	December 2013	R6 000 was paid to Redi Box WC, the sole manufacturer of Redi Box Files. The remaining deviations is the result of only one (1) of two (2) local suppliers being able to provide the required goods.	11 447	7 121
Various suppliers	January 2014	R69 941 was paid to Tosas, as they were the only supplier with a valid tax clearance certificate that could provide the required goods.	136 924	9 961
Various suppliers	February 2014	Autolec is the only provider that can repair wearing vehicles locally. Furthermore, Tri-Lectro is the only supplier able to locate faulty wires in the area, resulting in only one quotation being obtained, amounting to R29 784. The remaining deviations is the result of only one (1) of two (2) local suppliers being able to provide the required goods.	123 889	95 973
Various suppliers	March 2014	Only two (2) local suppliers can provide burglar proofing, resulting in a payment of R23 142 made to Dumas Engineerswerke. Rocla is the only local provider for concrete work, whilst Precision Hydraulics was the only supplier that could repair a hydraulic crane. The remaining deviations is the result of only one (1) of two (2) local suppliers being able to provide the required goods.	98 164	25 778
Various suppliers	April 2014	Rocla is the only local provider for concrete work, whilst Tosas is one of the two (2) suppliers of tar within the radius. The remaining deviations is the result of only one (1) of two (2) local suppliers being able to provide the required goods.	81 334	50 426
Various suppliers	May 2014	Due to quality being sought, the Swop Shop was paid R27 184 for the procurement of chairs. Tosas is one of the two (2) suppliers of tar within the radius. The remaining deviations is the result of only one (1) of two (2) local suppliers being able to provide the required goods.	104 908	7 095
Various suppliers	June 2014	Tri-Lectro is the only supplier able to locate faulty wires in the area, resulting in only one quotation being obtained, amounting to R126 840. For the printing of the Annual Report, only Swift Print submitted a quotation (R123 659). The remaining deviations is the result of only one (1) of two (2) local suppliers being able to provide the required goods.	352 413	26 806

2014	2013
R	R

Material Electricity and Water Losses were as follows and are not recoverable:

		Lost Units	Tariff	Value
30 June 2014	Unaccounted Electricity Losses	<u>7 428 611</u>	<u>0.7400</u>	<u>5 497 172</u>
30 June 2013	Unaccounted Electricity Losses	8 234 071	0.6800	5 599 168

System Input Volume	57 021 523	55 479 545
Billed Consumption	(44 956 334)	(42 807 111)
Unaccounted	12 065 189	12 672 434
Normal distribution losses - % of electricity purchases	(4 561 722)	(4 438 364)
Distribution Loss	7 503 467	8 234 071

		Lost Units	Tariff	Value
30 June 2014	Unaccounted Water Losses	<u>651 544</u>	<u>0.7632</u>	<u>497 258</u>
30 June 2013	Unaccounted Water Losses	565 117	0.6838	386 444

The municipality has entered into a contract with Fortogenic Solutions for the provision of employee wellness and health programmes.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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50. FINANCIAL INSTRUMENTS

50.1 Classification

FINANCIAL ASSETS:

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

<u>Financial Assets</u>	<u>Classification</u>		
Non-current Investments			
Listed Investments	Fair value	21 088	13 980
Long-term Receivables			
Other Loans	Amortised cost	1 164	1 164
Receivables from Exchange Transactions			
Electricity	Amortised cost	10 218 377	12 187 594
Refuse	Amortised cost	3 068 820	5 165 851
Sewerage	Amortised cost	6 053 654	10 717 311
Water	Amortised cost	10 253 713	17 215 263
Other Receivables	Amortised cost	894 098	1 317 578
Receivables from Non-exchange Transactions			
Assessment Rates Debtors	Amortised cost	6 451 166	9 189 949
Sundry Debtors	Amortised cost	5 742 521	3 139 040
Cash and Cash Equivalents			
Call Deposits	Amortised cost	772 511	7 098 439
Notice Deposits	Amortised cost	10 522 283	9 927 906
Bank Balances	Amortised cost	914 009	168 744
Cash Floats and Advances	Fair value	1 400	1 400

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

		2014 R	2013 R
SUMMARY OF FINANCIAL ASSETS			
Financial Assets at Amortised Cost:			
Long-term Receivables	Other Loans	1 164	1 164
Receivables from Exchange Transactions	Electricity	10 218 377	12 187 594
Receivables from Exchange Transactions	Refuse	3 068 820	5 165 851
Receivables from Exchange Transactions	Sewerage	6 053 654	10 717 311
Receivables from Exchange Transactions	Water	10 253 713	17 215 263
Receivables from Exchange Transactions	Other Debtors	894 098	1 317 578
Receivables from Non-exchange Transactions	Assessment Rates Debtors	6 451 166	9 189 949
Receivables from Non-exchange Transactions	Sundry Debtors	5 742 521	3 139 040
Cash and Cash Equivalents	Call Deposits	772 511	7 098 439
Cash and Cash Equivalents	Bank Balances	914 009	168 744
Cash and Cash Equivalents	Notice Deposits	10 522 283	9 927 906
		54 892 315	76 128 837
Financial Assets at Fair Value:			
Non-current Investments	Listed Investments	21 088	13 980
Cash and Cash Equivalents	Cash Floats and Advances	1 400	1 400
		22 488	15 380
Total Financial Assets		54 914 803	76 144 217

FINANCIAL LIABILITIES:

In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:

<u>Financial Liabilities</u>	<u>Classification</u>		
Long-term Liabilities			
Annuity Loans	Amortised cost	8 746 879	10 977 305
Payables from Exchange Transactions			
Trade Creditors	Amortised cost	715 752	1 397 185
Retentions	Amortised cost	1 286 997	993 780
Staff Bonuses	Amortised cost	1 873 069	1 648 427
Other Creditors	Amortised cost	2 698 912	1 830 329
Department of Housing	Amortised cost	0	421 638
Salary Control Account	Amortised cost	(0)	445 614
Accrued Leave	Amortised cost	4 311 470	3 816 770
Bank Overdraft			
Bank Overdraft	Amortised cost	11 924 753	6 556 641
Current Portion of Long-term Liabilities			
Annuity Loans	Amortised cost	2 757 975	2 484 682

SUMMARY OF FINANCIAL LIABILITIES

Financial Liabilities at Amortised Cost:

Long-term Liabilities	Annuity Loans	8 746 879	10 977 305
Payables from Exchange Transactions	Trade Creditors	715 752	1 397 185
Payables from Exchange Transactions	Retentions	1 286 997	993 780
Payables from Exchange Transactions	Staff Bonuses	1 873 069	1 648 427
Payables from Exchange Transactions	Other Creditors	2 698 912	1 830 329
Payables from Exchange Transactions	Department of Housing	0	421 638
Payables from Exchange Transactions	Salary Control Account	(0)	445 614
Payables from Exchange Transactions	Accrued Leave	4 311 470	3 816 770
Current Portion of Long-term Liabilities	Annuity Loans	2 757 975	2 484 682
Bank Overdraft	Bank Overdraft	11 924 753	6 556 641
		34 315 808	30 572 371
Total Financial Liabilities		34 315 808	30 572 371

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R

2013
R

50.2 Fair Value

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

Non-current Investments

The Fair Value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted Equity Investments are estimated using the discounted cash flow method.

Loan Receivables/Payables

Interest-bearing Borrowings and Receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the Fair Value of these Financial Assets and Liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and Other Receivables/Payables

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratios of the municipality's debtors.

Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term Liabilities

The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on 30 June 2014, as a result of the short-term maturity of these assets and liabilities.

The Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

	2014		2013	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
FINANCIAL ASSETS				
Measured at Amortised Cost:	54 892 315	54 892 315	76 128 837	76 128 837
Notice Deposits	10 522 283	10 522 283	9 927 906	9 927 906
Long-term Receivables	1 164	1 164	1 164	1 164
Trade Receivables from Exchange Transactions	30 488 661	30 488 661	46 603 596	46 603 596
Trade Receivables from Non-exchange Transactions	12 193 687	12 193 687	12 328 988	12 328 988
Bank Balances and Cash	914 009	914 009	168 744	168 744
Call Deposits	772 511	772 511	7 098 439	7 098 439
Measured at Fair Value	22 488	22 488	15 380	15 380
Listed Investments	21 088	21 088	13 980	13 980
Bank Balances and Cash	1 400	1 400	1 400	1 400
Total Financial Assets	54 914 803	54 914 803	76 144 217	76 144 217
FINANCIAL LIABILITIES				
Measured at Amortised Cost:	34 315 808	34 315 808	30 572 371	30 572 371
Annuity Loans	8 746 879	8 746 879	10 977 305	10 977 305
Bank Overdraft	11 924 753	11 924 753	6 556 641	6 556 641
Trade and Other Payables:				
- Payables from Exchange Transactions	10 886 201	10 886 201	10 553 742	10 553 742
- Current Portion of Long-term Liabilities	2 757 975	2 757 975	2 484 682	2 484 682
Total Financial Liabilities	34 315 808	34 315 808	30 572 371	30 572 371
Total Financial Instruments	20 598 995	20 598 995	45 571 846	45 571 846
Unrecognised Gain / (Loss)		-		-

No Financial Instruments of the municipality have been reclassified during the year.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R

2013
R

Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

Level 1:-

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2:-

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:-

Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Class is one level lower than category.

30 June 2014

	Level 1 R	Level 2 R	Level 3 R	Total R
FINANCIAL ASSETS				
Financial Instruments at Fair Value:				
Listed Investments	21 088	-	-	21 088
Bank Balances and Cash	-	1 400	-	1 400
Total Financial Assets	21 088	1 400	-	22 488
FINANCIAL LIABILITIES				
Financial Instruments at Fair Value:				
Other Loans	-	-	-	-
Total Financial Liabilities	-	-	-	-
Total Financial Instruments	21 088	1 400	-	22 488

30 June 2013

	Level 1 R	Level 2 R	Level 3 R	Total R
FINANCIAL ASSETS				
Financial Instruments at Fair Value:				
Listed Investments	13 980	-	-	13 980
Bank Balances and Cash	-	1 400	-	1 400
Total Financial Assets	13 980	1 400	-	15 380
FINANCIAL LIABILITIES				
Financial Instruments at Fair Value:				
Other Loans	-	-	-	-
Total Financial Liabilities	-	-	-	-
Total Financial Instruments	13 980	1 400	-	15 380

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014 R	2013 R
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50.3 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2010.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 20, Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 23 and the Statement of Changes in Net Assets.

Gearing Ratio

In terms of the municipality's five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 95.00%, reducing 90.00%. This aggressive ratio is as a result of the development challenges faced by the municipality. The rate of borrowing is well below market related rates.

The gearing ratio at the year-end was as follows:

Debt	34 315 808	30 572 371
Cash and Cash Equivalents	(1 400)	(1 400)
Net Debt	34 314 408	30 570 971
Equity	956 006 166	1 022 786 943
Net debt to equity ratio	3.59%	2.99%

Debt is defined as Long- and Short-term Liabilities, as detailed in Notes 7, 16, 17 and 20.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

50.4 Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the municipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

50.5 Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014	2013
R	R

Risks and exposures are disclosed as follows:

Market Risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Liquidity Risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for Financial Liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Notes 49.8 and 49.9 to the Annual Financial Statements.

50.6 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 50.7 below). No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

50.6.1 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

50.6.2 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. No investment with a tenure exceeding twelve months shall be made without consultation with the councillor responsible for financial matters.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is exposed to interest rate risk as the municipality borrows funds at both fixed and floating interest rates. The risk is managed by the municipality by maintaining an appropriate mix between fixed and floating rate borrowings, such borrowing being below market related rates.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014 **2013**
R **R**

Interest Rate Sensitivity Analysis

The municipality had no floating rate long-term financial instruments at year-end requiring an Interest Rate Sensitivity Analysis.

50.7 Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as

Fixed Deposit Investments	21 088	13 980
Long-term Receivables	1 164	1 164
Consumer Debtors	75 809 441	80 607 597
Other Debtors	32 236 964	20 905 995
Bank, Cash and Cash Equivalents	285 450	10 639 847
Maximum Credit and Interest Risk Exposure	108 354 108	112 168 583

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:		
	%	%
Consumer Debtors:		
- Household	73.75%	81.75%
- Industrial / Commercial	3.87%	4.86%
- National and Provincial Government	5.06%	5.03%
- Other Classes	0.00%	0.00%
Other Debtors:		
- Other not Classified	17.32%	8.36%
Total Credit Risk	100.00%	100.00%
Bank and Cash Balances		
ABSA Bank Ltd	(532 876)	3 569 182
First National Bank	2 582	2 523
Nedbank	730 274	6 521 164
Standard Bank	84 071	604 940
Cash Equivalents	1 400	1 400
Total Bank and Cash Balances	285 450	10 699 209
Credit quality of Financial Assets:		
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:		
Long-term Receivables		
Group 1	1 164	1 164
Group 2	-	-
Group 3	-	-
Total Long-term Receivables	1 164	1 164
Receivables from Exchange Transactions		
Counterparties without external credit rating:-		
Group 1	8 160 389	36 799 551
Group 2	6 911 662	50 426 120
Group 3	60 737 390	21 859 959
Total Receivables from Exchange Transactions	75 809 441	109 085 630
Receivables from Non-exchange Transactions		
Group 1	1 646 289	1 191 584
Group 2	1 654 229	10 003 596
Group 3	10 218 016	1 224 543
Total Receivables from Non-exchange Transactions	13 518 534	12 419 723

Credit quality Groupings:

Group 1 - High certainty of timely payment. Liquidity factors are strong and the risk of non-payment is small.

Group 2 - Reasonable certainty of timely payment. Liquidity factors are sound, although ongoing funding needs may enlarge financing requirement. The risk of non-payment is small.

Group 3 - Satisfactory liquidity factors and other factors which qualify the entity as investment grade. However, the risk factors of non-payment are larger.

None of the financial assets that are fully performing have been renegotiated in the last year.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

50. FINANCIAL INSTRUMENTS (Continued)

50.8 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 45 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk (cash).

Liquidity and Interest Risk Tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts. A credit line overdraft facility of R1 million is available and is unsecured. Interest payable is linked to the prime interest rate.

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
30 June 2014								
Non-interest Bearing		0.00%	11 126 561	11 126 561	-	-	-	-
- Payables from Exchange transactions			11 126 561	11 126 561	-	-	-	-
			-					
Variable Interest Rate Instruments		9.50%	4 063 375	1 160 964	1 160 964	1 741 446	-	-
- ABSA Bank Ltd			4 063 375	1 160 964	1 160 964	1 741 446	-	-
Fixed Interest Rate Instruments		5.00%	3 180 774	486 124	486 124	972 248	1 236 278	-
- DBSA			555 235	111 047	111 047	222 094	111 047	-
- DBSA			2 625 539	375 077	375 077	750 154	1 125 231	-
			18 370 710	12 773 649	1 647 088	2 713 694	1 236 278	-
30 June 2013								
Non-interest Bearing		0.00%	10 765 800	10 765 800	-	-	-	-
- Payables from Exchange transactions			10 765 800	10 765 800	-	-	-	-
			-					
Variable Interest Rate Instruments		9.50%	6 351 178	1 154 764	1 154 764	2 309 529	1 732 120	-
- ABSA Bank Ltd			6 351 178	1 154 764	1 154 764	2 309 529	1 732 120	-
Fixed Interest Rate Instruments		10.00%	3 666 898	486 124	486 124	972 248	1 722 402	-
- DBSA			666 282	111 047	111 047	222 094	222 094	-
- DBSA		12.00%	3 000 616	375 077	375 077	750 154	1 500 308	-
			20 783 876	12 406 689	1 640 888	3 281 777	3 454 522	-

The municipality has access to financing facilities, the total unused amount which is R1 850 000 (2013: R1 850 000), at the reporting date. The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain current debt to equity ratio. This will be achieved through increased service tariff charges and the increased use of unsecured bank loan facilities.

50.9 Other Price Risks

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014	2013
R	R

51. MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R6 779 069 (2013: R6 325 945) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

DEFINED CONTRIBUTION SCHEMES

Cape Joint Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2013.

The statutory valuation performed as at 30 June 2013 revealed that the investment reserve of the fund amounted to R1,967 (30 June 2012: R0) million, with a funding level of 99,7% (30 June 2012: 99,4%). The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

Cape Joint Retirement Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2013.

The statutory valuation performed as at 30 June 2013 revealed that the assets of the fund amounted to R31,425 (30 June 2012: R(7,980)) million, with funding levels of 100,2% and 105,1% (30 June 2012: 99,9% and 108,0%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (7,50%) and the municipalities (19,50%) is sufficient to fund the benefits accruing from the fund in the future.

Municipal Councillors Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2012.

The statutory valuation performed as at 30 June 2012 revealed that the assets of the fund amounted to R1 310,754 (30 June 2009: R1 357,463) million. The contribution rate paid by the members (13,75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

SALA Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2013.

The statutory valuation performed as at 30 June 2013 revealed that the assets of the fund amounted to R10 439,2 (30 June 2012: R8 753,4) million, with funding levels of 100,0% (30 June 2012: 100,0%). The contribution rate paid by the members (8,6%) and Council (20,78%) is sufficient to fund the benefits accruing from the fund in the future.

SAMWU Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2008.

The statutory valuation performed as at 30 June 2008 revealed that the assets of the fund amounted to R2 445,9 (30 June 2005: R1 511,5) million, with funding levels of 100,0% (30 June 2009: 100,0%). The contribution rate paid by the members (7,50%) and Council (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014
R **2013**
R

52. RELATED PARTY TRANSACTIONS

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

52.1 Interest of Related Parties

Councillors and/or management of the municipality have relationships with businesses as indicated below:

Name of Related Person	Designation	Description of Related Party Relationship
Manuel MF	Director	Institute of Municipal Finance Officers (section 21 company)

52.2 Services rendered to Related Parties

The municipality did not render any services during the year to anyone that can be considered as a related party.

During the year the municipality rendered services to the following related parties that are related to the municipality as indicated:

	Rates Charges R	Service Charges R	Sundry Charges R	Total Charges R
30 June 2014				
Councillors	36 318	66 525	8 759	111 602
Municipal Manager and Section 57 Personnel	24 323	42 608	8 848	75 778
Total Services	60 640	109 133	17 607	187 380
30 June 2013				
Councillors	26 138	58 714	376	85 228
Municipal Manager and Section 57 Personnel	23 640	38 630	8 712	70 981
Total Services	49 777	97 344	9 088	156 209

The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. No Bad Debts were written off or recognised in respect of amounts owed by Related Parties.

The amounts outstanding are unsecured and will be settled in cash. Consumer Deposits were received from Councillors, the Municipal Manager and Section 57 Personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

52.3 Loans granted to Related Parties

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004.

52.4 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Appendix G, Statement of Remuneration of Management, to the Annual Financial Statements.

52.5 Purchases from Related Parties

The municipality did not buy goods from any companies which can be considered to be Related Parties.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	2014 R	2013 R
53. CONTINGENT LIABILITIES		
(i) Telkom:	-	60 000
The Municipality has been summonsed for an amount of R35 568. This matter was resolved during the year, resulting in the Municipality's insurer settling the settled amount. No legal costs were incurred.		
(ii) Landfill Sites:	-	-
The Municipality has three active landfill sites. It has been identified that the landfill sites situated in Britstown and Hanover are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). In accordance with section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (g) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made. The necessary steps have been taken by the Municipality to obtain the required permits and licenses and the process has been started.		
(iii) Department of Safety and Liaison: Motor Registration Fees	1 825 040	1 355 739
The Municipality received correspondence from the Department of Safety and Liaison (DSL) informing us that the Municipality owes the DSL outstanding amounts for Motor Registration Fees. The amount that DSL claims that the Municipality owes, amounted to R1 825 040 (2013: R1 355 739). The Municipality is disputing this claim as it has made regular and continuous payments to the DSL. Motor registration fees were deposited directly into the bank account of DSL. The Chief Financial Officers and delegations of both the EM and DSL met and agree that a proper investigation should be conducted into these claims of outstanding fees. To date the investigation has not taken place and will be conducted before the end of the 2014/2015 financial year of DSL. A complete report will be prepared after the investigation has been completed. The amount of R1 825 040 (2013: R1 355 739) that the DSL claims that the Municipality owes them has therefore not yet been substantiated and the exact amount will only be determined once the investigation has been completed.		
(iv) Sigonyeta:	-	100 000
In the prior financial year, a possible claim, on behalf of the property owners, against the Municipality existed which amounted to R100 000. As disclosed in the previous financial year, this matter never went to court and has been closed.		
(v) Amounts owing to EE Services	116 472	-
During the year staff members attended apprenticeship courses, which was provided by EE Services. The amount of R116 472 (final payment) has not been made to the service provider and the funds could therefore not yet be claimed from LGSETA. Management is in the process to resolve this issue as LGSETA should provide the funds to settle the amount.		

54. CONTINGENT ASSETS

The municipality was not engaged in any transaction or event during the year under review involving Contingent Assets.

55. IN-KIND DONATIONS AND ASSISTANCE

The municipality received the following in-kind donations and assistance:

56. PRIVATE PUBLIC PARTNERSHIPS

The municipality was not a party to any Private Public Partnerships during the year under review.

57. EVENTS AFTER THE REPORTING DATE

No events having financial implications requiring disclosure occurred subsequent to 30 June 2014.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2014 **2013**
R **R**

58. COMPARATIVE FIGURES

The comparative figures were restated as a result of the effect of Changes in Accounting Policies (Note 40) and Prior Period Errors (Note 41).

59. GOING CONCERN ASSESSMENT

Management considered the following matters relating to the Going Concern:

- (i) On 29 May 2013 the Council adopted the 2013/14 to 2014/16 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to support the ongoing delivery of municipal services to residents reflected that the Budget was cash-backed over the three-year period.
- (ii) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.
- (iii) Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the Budget. The cash management processes is complemented by weekly and monthly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.
- (iv) As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis.

60. NON-COMPLIANCE WITH TO THE MUNICIPAL FINANCE MANAGEMENT ACT

Non Compliance to the following sections of chapters of the MFMA :

Chapter	Section	Sub-section	Detail of non-compliance
8	66	(e)	Payments not made within 30 days.

APPENDIX A
EMTHANJENI LOCAL MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2014

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at 1 July 2013	Received during the Period	Redeemed/ Written Off during Period	Balance at 30 June 2014
	R				R	R	R	R
ANNUITY LOANS								
DBSA	1 809 999	10.00%	1150 563	2016/03/31	577 634	-	(174 101)	403 533
DBSA	4 981 693	12.00%	1150 566	2017/03/31	2 398 408	-	(499 275)	1 899 134
ABSA	9 000 000	9.00%	30 3336 7955	2016/03/31	5 516 580	-	(1 830 343)	3 686 237
Total Annuity Loans	15 791 692				8 492 623	-	(2 503 719)	5 988 904
TOTAL EXTERNAL LOANS	15 791 692				8 492 623	-	(2 503 719)	5 988 904

ANNUITY LOANS:

DBSA loan (1150 563):

Structured unsecured 20 year loan for the funding of the De Aar/Nonzwakazi Bulk & Internal Electrical Supply. Original loan capital of R1 809 000 is repayable semi-annually in fixed instalments of capital and fixed rate interest of R111 047.

DBSA loan (1150 566):

Structured unsecured 20 year loan for the funding of the De Aar/Nonzwakazi Bulk & Internal Electrical Supply. Original loan capital of R4 981 693 is repayable semi-annually in fixed instalments of capital and fixed rate interest of R375 077.

ABSA loan (30 3336 7955):

Structured secured 5 year loan for the purchase of vehicles. Original loan capital of R9 000 000 is repayable monthly in fixed instalments of capital and fixed rate interest of R194 352.

Note: The rates of interest payable on the above structured loans and finance leases are based on certain underlying assumptions relating to the lenders' statutory costs and the allowability of deductions by the lenders for income tax purposes in connection with these loans. In the event of changes to, or interpretation of, the Income Tax Act or any other relevant legislation which impact on the loan structure costs, the lenders have the right to increase or decrease the future rates of interest payable on the loans over their remaining lives, in order to absorb the increase or decrease in costs.

APPENDIX B
EMTHANJENI LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2014

Description	Cost / Revaluation					Accumulated Depreciation / Impairment				Carrying Value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	R
Land and Buildings										
Land	16 162 521	-	-	-	16 162 521	-	-	-	-	16 162 521
Building	262 427 892	264 643	235 000	-	262 927 535	128 057 687	11 020 912	-	139 078 599	123 848 936
	278 590 413	264 643	235 000	-	279 090 056	128 057 687	11 020 912	-	139 078 599	140 011 457
Infrastructure										
<i>Electricity:</i>										
Electricity Network	220 384 653	1 225 069	-	-	221 609 722	131 434 760	8 683 878	-	140 118 638	81 491 084
<i>Solid Waste</i>										
Landfill Site	14 924 060	-	-	-	14 924 060	2 151 137	582 506	-	2 733 643	12 190 417
<i>Sanitation:</i>										
Sewer	103 032 039	-	506 301	-	103 538 340	58 775 095	3 061 926	-	61 837 020	41 701 320
<i>Storm Water</i>										
Storm Water Network	408 519 193	1 088 873	-	-	409 608 066	231 252 338	8 172 195	-	239 424 533	170 183 533
<i>Roads:</i>										
Roads Network	815 284 001	-	14 767 018	-	830 051 019	473 562 056	19 026 805	-	492 588 861	337 462 158
<i>Water:</i>										
Water Network	310 523 430	1 680 940	-	-	312 204 370	172 656 288	14 718 860	-	187 375 148	124 829 222
	1 872 667 376	3 994 882	15 273 319	-	1 891 935 577	1 069 831 673	54 246 170	-	1 124 077 843	767 857 733
Other Assets										
<i>Computer Equipment</i>										
Computer Hardware	2 664 032	381 405	-	(452 591)	2 592 846	1 856 490	242 264	(380 354)	1 718 400	874 446
<i>Transport Assets</i>										
Bicycles	2 400	-	-	-	2 400	922	165	-	1 086	1 314
Motor Vehicles	3 471 735	656 684	-	-	4 128 419	1 302 347	319 426	-	1 621 773	2 506 646
Trailers and Accessories	271 890	-	-	(23 379)	248 511	91 152	30 070	(11 446)	109 776	138 735
Trucks	5 060 306	302 000	-	(135 886)	5 226 420	1 336 382	398 635	(60 838)	1 674 180	3 552 240
<i>Furniture and Office Equipment:</i>										
Advertising Boards	3 341 747	455	-	-	3 342 202	562 861	333 717	-	896 578	2 445 624
Air Conditioners Individual Fixed And Movable	448 072	41 316	-	(60 500)	428 888	221 884	80 127	(48 655)	253 355	175 533
Domestic and Hostel Furniture	61 825	-	-	(2 798)	59 027	28 957	5 401	(1 115)	33 243	25 784
Fixtures and Fittings	510 748	-	-	-	510 748	313 673	37 165	-	350 838	159 910
Office Equipment Including Fax Machines	849 910	10 882	-	(40 654)	820 139	538 932	59 051	(33 577)	564 406	255 733
Office Furniture	3 643 070	42 095	-	(226 052)	3 459 113	2 176 507	334 736	(188 550)	2 322 692	1 136 421

APPENDIX B
EMTHANJENI LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2014

<i>Machinery and Equipment:</i>										
Audiovisual Equipment	302 040	9 997	-	(41 148)	270 889	162 206	36 847	(33 247)	165 806	105 083
Domestic Equipment (Non Kitchen Appliances)	128 173	5 067	-	(6 331)	126 909	98 262	8 459	(5 993)	100 728	26 181
Electric Wire And Power Distribution Equipment	150 366	-	-	(7 392)	142 974	84 447	13 404	(5 988)	91 863	51 111
Fire Arms	92 848	-	-	-	92 848	19 912	16 713	-	36 625	56 223
Fire Fighting Equipment	97 515	-	-	(26 775)	70 740	76 971	7 526	(24 098)	60 400	10 340
Gardening Equipment	146 790	-	-	(3 290)	143 500	92 550	20 026	(2 961)	109 615	33 886
Kitchen Appliances	162 689	4 863	-	(17 391)	150 160	102 824	18 081	(14 895)	106 009	44 152
Laboratory Equipment Agricultural	9 300	-	-	-	9 300	5 198	911	-	6 108	3 192
Laboratory Equipment Medical Testing	5 993	-	-	-	5 993	4 621	428	-	5 049	944
Machines for Textile Production	1 393	-	-	-	1 393	627	125	-	752	641
Medical and Allied Equipment	36 098	-	-	(2 932)	33 166	18 076	4 238	(2 375)	19 940	13 226
Meters Prepaid	34 819	-	-	(6 964)	27 855	24 011	3 501	(5 896)	21 616	6 239
Music Instruments	130 000	-	-	-	130 000	58 500	11 700	-	70 200	59 800
Pumps, Plumbing, Purification, Sanitation and Allied Equipm	616 998	-	-	-	616 998	397 278	36 389	-	433 667	183 331
Radio Equipment	58 907	6 498	-	(5 280)	60 125	33 032	7 309	(4 277)	36 064	24 060
Road Construction And Maintenance Equipment	5 245 337	18 930	-	(165 650)	5 098 617	1 415 882	472 545	(126 965)	1 761 462	3 337 155
Security and Access Control Units	129 179	-	-	-	129 179	25 947	17 239	-	43 186	85 993
Telecommunication Equipment	534 894	-	-	-	534 894	448 168	10 550	-	458 718	76 176
Workshop Equipment and Loose Tools Fixed	96 152	-	-	(20 972)	75 180	60 982	8 815	(16 987)	52 809	22 371
Workshop Equipment and Loose Tools Movable	1 128 661	209 413	-	(35 694)	1 302 381	827 977	87 234	(30 124)	885 087	417 293
	29 433 886	1 689 606	-	(1 281 678)	29 841 814	12 387 574	2 622 799	(998 342)	14 012 032	15 829 782
Total	2 180 691 676	5 949 131	15 508 319	(1 281 678)	2 200 867 447	1 210 276 935	67 889 881	(998 342)	1 277 168 474	923 698 973

ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2014
ANALYSIS OF INVESTMENT PROPERTY AS AT 30 JUNE 2014

Description	Cost / Revaluation					Accumulated Depreciation / Impairment				Carrying
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Value
Investment Property	R	R	R	R	R	R	R	R	R	R
Land	5 004 000	-	-	-	5 004 000	-	-	-	-	5 004 000
	5 004 000	-	-	-	5 004 000	-	-	-	-	5 004 000

ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2014
ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2014

Description	Cost / Revaluation					Accumulated Depreciation / Impairment				Carrying
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Value
Intangible Assets	R	R	R	R	R	R	R	R	R	R
Computer Software	1 884 660	92 919	-	-	1 977 579	1 346 612	247 176	-	1 593 787	383 792
	1 884 660	92 919	-	-	1 977 579	1 346 612	247 176	-	1 593 787	383 792

Total Asset Register	2 170 335 607	6 042 049	15 508 319	(1 281 678)	2 190 604 296	1 209 651 298	67 643 994	(998 342)	1 276 296 951	914 307 345
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APPENDIX C
EMTHANJENI LOCAL MUNICIPALITY
SEGMENTAL ANALYSIS OF CAPITAL ASSETS AS AT 30 JUNE 2014

Description	Cost / Revaluation					Accumulated Depreciation / Impairment				Carrying Value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	R
Executive and Council	1 059 788	585 487	-	(34 640)	1 610 634	495 999	191 449	(24 143)	663 306	947 328
Finance and Administration	3 262 207	199 452	-	(379 119)	3 082 541	1 686 895	367 248	(317 959)	1 736 184	1 346 357
Planning and Development	278 590 413	264 643	235 000	-	279 090 056	128 057 687	11 020 912	-	139 078 599	140 011 457
Community and Social Services	5 459 468	62 903	-	(306 071)	5 216 300	3 272 757	419 155	(258 635)	3 433 277	1 783 022
Health	132 234	-	-	(17 461)	114 773	88 782	10 497	(13 990)	85 289	29 485
Housing	16 374 870	713 769	-	(535 041)	16 553 598	5 798 028	1 370 059	(376 269)	6 791 818	9 761 780
Roads and Transport	395 102 500	127 996	15 273 319	(9 346)	410 494 468	232 297 452	8 102 334	(7 346)	240 392 440	170 102 028
Electricity	1 052 152 148	2 313 622	-	-	1 054 465 770	604 997 924	28 042 991	-	633 040 914	421 424 856
Waste Management	105 715 370	-	-	-	105 715 370	58 953 983	3 151 370	-	62 105 353	43 610 017
Water	310 601 948	1 681 260	-	-	312 283 208	172 655 181	14 720 803	-	187 375 983	124 907 224
Total	2 168 450 947	5 949 131	15 508 319	(1 281 678)	2 188 626 718	1 208 304 687	67 396 819	(998 342)	1 274 703 164	913 923 554

**APPENDIX D
EMTHANJENI LOCAL MUNICIPALITY**

SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2014

2012/2013 Actual Income	2012/2013 Actual Expenditure	2012/2013 Surplus/ (Deficit)	Description	2013/2014 Actual Income	2013/2014 Actual Expenditure	2013/2014 Surplus/ (Deficit)
R	R	R		R	R	R
5 410 411	(16 064 546)	(10 654 135)	Executive and Council	5 435 955	(15 290 139)	(9 854 184)
36 636 996	(23 650 421)	12 986 574	Finance and Administration	38 130 874	(29 394 777)	8 736 097
745 788	(17 171 398)	(16 425 610)	Planning and Development	1 234 627	(18 449 763)	(17 215 136)
-	(79 492)	(79 492)	Health	-	(74 729)	(74 729)
1 394 429	(5 894 661)	(4 500 232)	Community and Social Services	1 434 627	(20 439 483)	(19 004 856)
1 219 589	(4 842 947)	(3 623 358)	Housing	1 030 963	(4 630 122)	(3 599 159)
16 114 515	(12 203 690)	3 910 825	Public Safety	21 037 314	(6 770 517)	14 266 797
355 071	(3 299 439)	(2 944 368)	Sport and Recreation	145 443	(3 341 147)	(3 195 704)
-	-	-	Environmental Protection	-	-	-
28 208 577	(19 193 131)	9 015 447	Waste Management	29 854 516	(28 977 635)	876 882
3 628 328	(17 490 973)	(13 862 646)	Roads and Transport	13 584 002	(20 603 512)	(7 019 510)
29 105 012	(21 999 822)	7 105 190	Water	25 603 450	(32 709 812)	(7 106 363)
52 351 708	(74 675 636)	(22 323 928)	Electricity	60 589 837	(82 559 386)	(21 969 548)
-	(1 290 049)	(1 290 049)	Other	-	(1 621 366)	(1 621 366)
175 170 425	(217 856 206)	(42 685 782)	Total	198 081 609	(264 862 387)	(66 780 778)

APPENDIX E(1)
EMTHANJENI LOCAL MUNICIPALITY
ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2014

Description	2013/2014 Actual	2013/2014 Budget	2013/2014 Variance	2013/2014 Variance	Explanation of Significant Variances greater than 10% versus Budget
REVENUE	R	R	R	%	
Property Rates	21 035 469	21 373 199	(337 730)	-2%	The Property Rates - Penalties is budgeted for with Interest Received. The current classification in the Annual Financial Statements is a GRAP requirement and has therefore been split as such.
Property Rates - Penalties imposed and collection charges	149 924	101 000	48 924	48%	
Fines	19 521 175	4 778 600	14 742 575	309%	For the 2013/2014 financial year, all fines (irrespective whether they are recoverable) were recognised. The relating debtor was tested for impairment in order to reflect the recoverable amount at yearend.
Licences and Permits	1 304 582	1 229 943	74 639	6%	The municipality generated more revenue than budgeted for.
Government Grants and Subsidies	58 854 156	53 377 000	5 477 156	10%	
Service Charges	91 654 816	96 814 993	(5 160 177)	-5%	Improved cash management and diversification of available cash. This is supported in the increase in the Cash and Cash Equivalents balance.
Rental of Facilities and Equipment	721 563	529 267	192 296	36%	
Interest Earned - External investments	1 030 475	792 983	237 492	30%	In the 2011/2012 financial year, preliminary figures showed a decrease in the provision for doubtful debt (reversal). This was taken into account during the preparation of the 2013/2014 budget as the 2012/2013 provision (and relating entries) were not calculated (and processed). This did however not realise and resulted in the material fluctuation. Furthermore, the revenue generated from prepaid electricity has been correctly classified.
Interest Earned - Outstanding debtors	625 352	639 120	(13 768)	-2%	
Other Income	3 216 352	2 453 317	763 035	31%	Due to the fair value adjustment made to Non-current Investments which were not anticipated and budgeted for.
Other Gains on Continued Operations	7 108	-	7 108	100%	
Gains on Disposal of Property, Plant and Equipment	164 093	80 000	84 093	105%	The proceeds generated by the auctions, together with the proceeds obtained during a trade-in of a municipal vehicle, resulted in the budgeted figures being surpassed.
Total Revenue	198 285 066	182 169 422	16 115 644	9%	
EXPENDITURE					
Employee Related Costs	59 893 633	61 716 478	(1 822 845)	-3%	No collection costs were paid during the year.
Remuneration of Councillors	4 157 184	3 716 624	440 560	12%	
Collection Costs	-	1 696 003	(1 696 003)	-100%	Due to the gross depreciation effect. The budget reflects the net gross depreciation. The backlog depreciation is specifically excluded from the budgeted figure.
Depreciation	68 084 142	8 469 169	59 614 973	704%	The provision for doubtful debt significantly increased during the year, due to the weaker payment (receipt) ratios calculated on each individual debtor.
Impairment Losses	47 931 544	8 627 155	39 304 389	456%	
Repairs and Maintenance	11 610 873	19 688 920	(8 078 047)	-41%	Less expenditure were incurred, due to cash control procedures implemented.
Interest Paid	1 607 928	1 029 649	578 279	56%	Due to significant decrease in the long-term liabilities.
Bulk Purchases	43 535 580	42 004 725	1 530 855	4%	The budgeted figure includes all capital expenditure, which has been reclassified to the correct financial statement line items.
Contracted Services	7 227 685	7 134 019	93 666	1%	
Grants and Subsidies Paid	750 004	14 908 311	(14 158 307)	-95%	Less expenditure were incurred, due to cash control procedures implemented.
General Expenses	19 997 152	23 534 696	(3 537 544)	-15%	The Municipality conducted a full land audit (please see the explanation included in the Inventory line item). During the year, a number of properties were transferred to buyers.
Loss on disposal of Property, Plant and Equipment	-	-	-	0%	
Loss on Sale of Land	203 456	-	203 456	100%	The amount written-off is immaterial and therefore management did not budget for it.
Inventory Written-off	66 661	-	66 661	100%	
Total Expenditure	265 065 843	192 525 749	72 540 094	38%	
NET SURPLUS / (DEFICIT) FOR THE YEAR	(66 780 777)	(10 356 327)	(56 424 450)	84%	

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2013

Description	2012/2013 Actual	2012/2013 Budget	2012/2013 Variance	2012/2013 Variance	Explanation of Significant Variances greater than 10% versus Budget
REVENUE	R	R	R	%	
Property Rates	17 220 134	17 888 000	(667 866)	-4%	The Property Rates - Penalties is budgeted for with Interest Received. The current classification in the Annual Financial Statements is a GRAP requirement and has therefore been split as such. The DPP withdrew the approval certificate for TVS to operate the speed cameras, resulting in the significant decrease in comparison to management's expectations.
Property Rates - Penalties imposed and collection charges	102 997	-	102 997	100%	
Fines	12 611 461	7 025 473	5 585 988	80%	
Licences and Permits	1 201 492	1 160 316	41 176	4%	
Government Grants and Subsidies	54 961 467	55 447 000	(485 533)	-1%	
Service Charges	79 889 148	75 156 550	4 732 598	6%	
Rental of Facilities and Equipment	946 889	499 305	447 584	90%	
Interest Earned - External investments	1 594 930	945 000	649 930	69%	
Interest Earned - Outstanding debtors	493 738	741 126	(247 388)	-33%	
Other Income	4 241 129	15 658 942	(11 417 813)	-73%	
Other Gains on Continued Operations	1 907 040	-	1 907 040	100%	The municipality is leasing a property to Mainstream for operational purposes. Although the lease has not been concluded, the company has occupied the property and has paid for the rental thereof. Improved cash management and diversification of available cash. This is supported in the increase in the Cash and Cash Equivalents balance. In the previous financial year, preliminary figures showed a decrease in the provision for doubtful debt (reversal). This was taken into account (supported by the budgeted amount in the Receivables). This did however not realise and resulted in the material fluctuation. Furthermore, the revenue generated from prepaid electricity has been correctly classified. Due to the fair value adjustment made to Investment Property and Non-current Investments which were not anticipated and budgeted for.
Profit on Sale of Land	319 091	100 000	219 091	219%	
Total Revenue	175 489 516	174 621 712	867 804	0%	
EXPENDITURE					
Employee Related Costs	56 448 872	53 433 861	3 015 011	6%	
Remuneration of Councillors	3 693 580	3 503 047	190 533	5%	
Collection Costs	66 492	-	66 492	100%	
Depreciation	69 274 980	7 924 058	61 350 922	774%	
Impairment Losses	12 035 046	6 993 080	5 041 966	72%	
Repairs and Maintenance	8 470 541	11 017 095	(2 546 554)	-23%	
Interest Paid	1 758 049	1 121 417	636 632	57%	A contract was concluded with an supplier to recover outstanding debt. The amount was however budgeted for under Contracted Services. Due to the gross depreciation effect. The budget reflects the net gross depreciation. The backlog depreciation is specifically excluded from the budgeted figure. Due to provision for Traffic Fines not budgeted for.
Bulk Purchases	38 781 485	41 440 000	(2 658 515)	-6%	
Contracted Services	7 257 409	6 492 652	764 757	12%	
Grants and Subsidies Paid	304 870	10 712 190	(10 407 320)	-97%	
General Expenses	19 968 729	22 705 925	(2 737 196)	-12%	
Loss on disposal of Property, Plant and Equipment	75 338	-	75 338	100%	
Loss on Sale of Land	-	-	-	0%	
Inventory Written-off	39 905	-	39 905	100%	
Total Expenditure	218 175 297	165 343 325	52 831 972	32%	
NET SURPLUS / (DEFICIT) FOR THE YEAR	(42 685 782)	9 278 387	(51 964 169)	122%	

APPENDIX E(2)
EMTHANJENI LOCAL MUNICIPALITY

ACTUAL VERSUS BUDGET (ACQUISITION OF CAPITAL ASSETS) FOR THE YEAR ENDED 30 JUNE 2014

Description	2013/2014 Actual	2013/2014 Under Construction	2013/2014 Total Additions	2013/2014 Budget	2013/2014 Variance	2013/2014 Variance	Explanation of Significant Variances greater than 10% versus Budget
	R	R	R	R	R	%	
Executive and Council	585 487	-	585 487	498 000	87 487	18%	Overall, the fluctuations amounted to +/- 3%. Although the budgeted amounts made provision for costs to be incurred in more departments, these funds were used to, mainly, finance the roads and stormwater project currently in progress at yearend.
Finance and Administration	199 452	-	199 452	1 959 000	(1 759 548)	-90%	
Planning and Development	264 643	235 000	499 643	11 844 000	(11 344 357)	-96%	
Community and Social Services	62 903	-	62 903	744 000	(681 097)	-92%	
Health	-	-	-	21 000	(21 000)	-100%	
Housing	713 769	-	713 769	510 000	203 769	40%	
Sport and Recreation	-	-	-	101 000	(101 000)	-100%	
Roads and Transport	127 996	15 273 319	15 401 315	3 219 000	12 182 315	378%	
Electricity	2 313 622	-	2 313 622	505 000	1 808 622	358%	
Waste Management	-	-	-	357 000	(357 000)	-100%	
Water	1 681 260	-	1 681 260	1 076 000	605 260	56%	
Total	5 949 131	15 508 319	21 457 449	20 834 000	623 449	3%	

ACTUAL VERSUS BUDGET (ACQUISITION OF CAPITAL ASSETS) FOR THE YEAR ENDED 30 JUNE 2013

Description	2012/2013 Actual	2012/2013 Under Construction	2012/2013 Total Additions	2012/2013 Budget	2012/2013 Variance	2012/2013 Variance	Explanation of Significant Variances greater than 10% versus Budget
	R	R	R	R	R	%	
Executive and Council	52 995	-	52 995	209 000	(156 005)	-75%	Management expected that more capital projects would be conducted and completed during the year (this is supported by the fluctuation identified in the Unspent Conditional Grants). Due to unforeseen circumstances, projects were not completed resulting in the significant decrease.
Finance and Administration	554 419	-	554 419	1 623 103	(1 068 684)	-66%	
Planning and Development	557 224	502 408	1 059 632	18 900	1 040 732	5507%	
Housing	141 639	-	141 639	20 225	121 414	600%	
Community and Social Services	136 034	-	136 034	1 107 944	(971 910)	-88%	
Public Safety	412	-	412	420 000	(419 588)	-100%	
Sport and Recreation	-	-	-	94 944	(94 944)	-100%	
Waste Management	-	-	-	5 852 000	(5 852 000)	-100%	
Roads and Transport	19 841	6 803 485	6 823 327	3 461 393	3 361 934	97%	
Water	-	649 820	649 820	10 194 854	(9 545 034)	-94%	
Electricity	400 840	3 884 035	4 284 875	412 200	3 872 675	940%	
Total	1 863 405	11 839 748	13 703 153	23 414 563	(9 711 410)	-41%	

APPENDIX F
EMTHANJENI LOCAL MUNICIPALITY
DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts				Quarterly Payments				Grants Withheld				Reason for Delay / Withholding of Funds	Compliance to Revenue Act	Reason for Non-compliance
		Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec	March	June		Yes / No	
Equitable Share	Nat Treasury	13 007 000	10 607 000	9 705 000	1 500 000	8 704 750	8 704 750	8 704 750	8 704 750	-	-	-	-	Not applicable	Yes	Not applicable
FMG	Nat Treasury	1 550 000	-	-	-	112 418	371 075	491 817	574 690	-	-	-	-	Not applicable	Yes	Not applicable
MIG Projects	Nat Treasury	3 824 000	-	8 000 000	-	1 447 470	1 015 527	2 782 353	9 620 297	1 500 000	-	-	-	Note 1 below	Yes	Not applicable
MSIG	Nat Treasury	890 000	-	-	-	421 436	468 564	-	-	-	-	-	-	Not applicable	Yes	Not applicable
INEP	Nat Treasury	800 000	-	-	-	542 755	-	-	-	-	-	-	-	Not applicable	Yes	Not applicable
DWAF	DWAF	376 694	218 225	1 470 885	-	157 881	1 165 476	723 427	27 677	-	-	-	-	Not applicable	Yes	Not applicable
Education	Province	-	1 500 000	-	-	-	-	267 900	-	-	-	-	-	Not applicable	Yes	Not applicable
EPWP Incentive Grant	Province	400 000	300 000	300 000	-	220 383	419 256	360 361	233 796	-	-	-	-	Not applicable	Yes	Not applicable
Nonzwakazi Revitalization	Province	-	-	-	-	1 021 869	346 725	190 428	383 664	-	-	-	-	Not applicable	Yes	Not applicable
Hospital Electricity Line	Province	-	-	-	1 500 000	-	1 311 379	-	-	-	-	-	-	Not applicable	Yes	Not applicable
Dept of Roads	Province	-	-	-	560 000	-	-	-	560 000	-	-	-	-	Not applicable	Yes	Not applicable
Library	Province	679 000	-	-	-	679 000	-	-	-	-	-	-	-	Not applicable	Yes	Not applicable
Housing Accreditation	Province	-	-	-	458 333	-	-	-	458 333	-	-	-	-	Not applicable	Yes	Not applicable
Project Nala	Province	-	-	-	-	-	-	-	-	-	-	-	-	Not applicable	Yes	Not applicable
Fire Fighting Equipment	Province	-	-	-	-	-	-	-	-	-	-	-	-	Not applicable	Yes	Not applicable
Phandulwazi Updgrade	Province	-	-	-	-	-	-	-	-	-	-	-	-	Not applicable	Yes	Not applicable
Total Grants and Subsidies Received		21 526 694	12 625 225	19 475 885	4 018 333	13 307 962	13 802 752	13 521 037	20 563 208	1 500 000	-	-	-			

Note 1: Municipal Finance Management Grant withheld

During the 2013/2014 financial year, National Treasury withheld R1 500 000 from the Municipality, by way of the Equitable Share allocation. This was done to recover unspent Municipal Infrastructure Grant funds.

APPENDIX G
EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF REMUNERATION OF MANAGEMENT

30 June 2014

Incumbent	Basic Salaries	Bonuses	Allowances	Contributions to Funds	Other Short-term Benefits	Any Other Benefits	Total Remuneration
	R	R	R	R	R	R	R
Mayor Sthonga ST	476 510	-	181 025	5 113	-	-	662 648
Speaker Freddie MM	322 325	-	152 087	66 814	-	-	541 227
Other Councillors							
Kivedo MC	124 203	-	70 525	22 754	-	-	217 482
Jood J	107 285	-	70 436	40 330	-	-	218 051
Jonas VG	123 973	-	70 527	22 752	-	-	217 252
Thomas NS	145 341	-	70 527	1 627	-	-	217 495
Du Plessis WJ	123 973	-	70 530	22 741	-	-	217 244
Nyl GL	170 277	-	88 631	31 230	-	-	290 138
Nkumbi GL	123 973	-	70 444	22 740	-	-	217 157
Witbooi WA	123 973	-	70 527	22 741	-	-	217 240
Jaftha AF	170 277	-	88 631	31 229	-	-	290 136
Swanepoel B	158 957	-	80 835	29 127	-	-	268 919
Malherbe M	123 973	-	70 444	22 741	-	-	217 158
Rust HJ	143 784	-	40 245	33 146	-	-	217 176
Total for Councillors	2 438 823	-	1 195 412	375 086	-	-	4 009 321
Municipal Manager Visser I	741 444	147 037	247 008	138 842	-	87 070	1 361 401
Chief Financial Officer Manuel MF	642 000	151 471	262 708	125 911	-	12 111	1 194 201
Director: Corporate Services Diamane EV	457 414	72 950	128 090	135 015	-	18 973	812 443
Director: Community and Development Services Jack MR	512 000	-	155 520	99 634	15 018	63 983	846 156
Director: Infrastructure and Technical Services Makaleni DV	409 500	34 125	119 462	81 764	30 576	-	675 428
Taljaard FD	112 325	69 011	20 894	20 528	-	-	222 758
Total for Senior Managers	2 874 683	474 594	933 682	601 695	45 594	182 138	5 112 386
Total for Management	5 313 506	474 594	2 129 094	976 782	45 594	182 138	9 121 708

APPENDIX G
EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF REMUNERATION OF MANAGEMENT

30 June 2013

Incumbent	Basic Salaries	Bonuses	Allowances	Contributions to Funds	Other Short-term Benefits	Any Other Benefits	Total Remuneration
	R	R	R	R	R	R	R
Mayor Sthonga ST	458 558	-	169 375	24	-	-	627 956
Speaker Freddie MM	310 064	-	139 808	59 931	-	-	509 803
Other Councillors							
Kivedo MC	118 483	-	58 576	20 313	-	-	197 372
Jood J	118 483	-	58 576	20 313	-	-	197 372
Jonas VG	118 483	-	58 576	20 313	-	-	197 372
Thomas NS	138 779	-	58 576	18	-	-	197 373
Du Plessis WJ	118 483	-	58 580	20 298	-	-	197 361
Nyl GL	162 223	-	75 207	27 930	-	-	265 360
Nkumbi GL	118 483	-	58 576	20 313	-	-	197 372
Witbooi WA	118 483	-	58 576	20 313	-	-	197 372
Jaftha AF	122 085	-	59 992	20 968	-	-	203 046
Swanepoel B	121 205	-	59 646	20 802	-	-	201 653
Malherbe M	156 219	-	64 998	23 259	-	-	244 476
Rust HJ	176 206	-	53 039	30 448	-	-	259 693
Total for Councillors	2 356 239	-	1 032 100	305 240	-	-	3 693 580
Municipal Manager Visser I	610 943	134 211	180 285	109 251	128 578	103 993	1 267 262
Chief Financial Officer Manuel MF	575 356	322 774	81 297	102 216	191 760	13 318	1 286 720
Director: Corporate Services Diamane EV	428 915	91 132	122 724	119 842	-	17 722	780 335
Director: Infrastructure and Technical Services Taljaard FD	632 835	94 418	127 589	113 402	93 412	6 253	1 067 910
Total for Senior Managers	2 248 050	642 535	511 895	444 711	413 750	141 287	4 402 227
Total for Management	4 604 289	642 535	1 543 995	749 951	413 750	141 287	8 095 808

APPENDIX H **EMTHANJENI LOCAL MUNICIPALITY** **RATIO ANALYSIS**

30 June 2014

RATIO		NORM/RANGE	INPUT DESCRIPTION	DATA INPUTS AND RESULTS	MUNICIPAL COMMENTS	
" R 000 "						
1. FINANCIAL POSITION						
A. Asset Management/Utilisation						
1	Capital Expenditure to Total Expenditure	10% - 20%		8%	The municipality has a R2.4 million unspent MIG grant, which should have realised if the projects were completed and/or work performed. This would have resulted in the required norm being met.	
			Total Operating Expenditure	265 065 843		
			Taxation Expense	-		
			Total Capital Expenditure	21 550 288		
2	Impairment of Property, Plant and Equipment, Investment Property and Intangible assets (Carrying Value)	0%		0%	Within the required norm.	
			PPE, Investment Property and Intangible Impairment	-		
			PPE at carrying value	923 698 842		
			IP at carrying value	5 004 000		
			Intangible Assets at carrying value	383 792		
3	Repairs and Maintenance as a % of Property, Plant and Equipment and Investment Property (Carrying Value)	8%		1%	The municipality has invested a substantial amount of funds in new infrastructure over the past few years. This has resulted in less repairs and maintenance being required over these assets (especially infrastructure assets) to ensure service delivery.	
			Total Repairs and Maintenance Expenditure	11 610 873		
			PPE at carrying value	923 698 842		
			Investment Property at Carrying value	5 004 000		
B. Debtors Management						
1	Collection Rate	95%		84%	The collection rate is lower than management's goal. In order to increase this ratio, management has appointed service providers to develop, implement and manage a system of Revenue Enhancement. The project is set to start in the 2014/2015 financial year.	
			Gross Debtors closing balance	75 809 441		
			Gross Debtors opening balance	80 607 597		
			Bad debts written Off	19 477 908		
			Billed Revenue	91 654 816		
2	Bad Debts Written-off as % of Provision for Bad Debt	100%		-43%	Within the required norm.	
			Consumer Debtors Bad debts written off	19 477 908		
			Consumer Debtors Current bad debt Provision	(45 320 762)		
3	Net Debtors Days	30 days		121 days	The net debtor days supports the need for a Revenue Enhancement Strategy and Implementation Plan, as well as the need to enhance the efforts of revenue collection through alternative means.	
			Gross debtors	75 809 441		
			Bad debts Provision	45 320 781		
			Billed Revenue	91 654 816		

APPENDIX H

EMTHANJENI LOCAL MUNICIPALITY

RATIO ANALYSIS

C. Liquidity Management

1	Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)	1 - 3 Months		-1 Month	This is the result of major creditors being paid prior to yearend, including Eskom. This ration will significantly improve in the coming months, especially summer months were the municipality is able to generate substantially more profit.
			Cash and cash equivalents	12 210 203	
			Unspent Conditional Grants	7 095 267	
			Overdraft	11 924 753	
			Short Term Investments	-	
			Total Annual Operational Expenditure	160 366 919	
2	Current Ratio	1.5 - 2:1		3.01	Within the required norm.
			Current Assets	119 417 513	
			Current Liabilities	39 672 457	

D. Liability Management

1	Capital Cost(Interest Paid and Redemption) as a % of Total Operating Expenditure	6% - 8%		1%	Within the required norm.
			Interest Paid	1 607 928	
			Redemption	-	
			Total Operating Expenditure	160 366 919	
			Taxation Expense	-	
2	Debt (Total Borrowings) / Revenue	45%		11%	Within the required norm.
			Total Debt	15 155 681	
			Total Operating Revenue	198 285 066	
			Operational Conditional Grants	58 854 156	

E. Sustainability

1	Level of Cash Backed Reserves (Net Assets - Accumulated Surplus)	100%		0%	Currently, the municipality does not make use of 'reserve-accounting'. The significant Accumulated Surplus balance is attributable to the introduction of GRAP, and especially GRAP 17: <i>Property, Plant and Equipment</i> , which required the municipality to measure and value all assets (including land, buildings and infrastructure assets). From the information presented, it is clear that sufficient investments exists to back the unspent conditional grant portion presented in the Annual Financial Statements.
			Cash and cash Equivalents	12 210 203	
			Bank Overdraft	11 924 753	
			Short Term Investment	-	
			Long Term Investment	21 088	
			Unspent Grants	7 095 267	
			Net Assets	956 006 166	
			Share Premium	-	
			Share Capital	-	
			Revaluation Reserve	-	
			Fair Value Adjustment Reserve	-	
			Accumulated Surplus	956 006 166	

2. FINANCIAL PERFORMANCE

A. Efficiency

1	Net Operating Surplus Margin	= or > 0%		-34%	The deficit is the result of the annua depreciation expense and the significant increase in the provision for doubtful debt.
			Total Operating Revenue	198 285 066	
			Depreciation - Revalued Portion	-	
			Total Operating Expenditure	265 065 843	
			Taxation Expense	-	
2	Net Surplus /Deficit Electricity	0% - 15%		25%	The municipality has been able to generate more profit through the sale of electricity, than the required norm with the environment.
			Total Electricity Revenue	56 487 600	
			Total Electricity Expenditure	42 152 616	
3	Net Surplus /Deficit Water	= or > 0%		93%	Within the required norm.
			Total Water Revenue	18 745 519	
			Total Water Expenditure	1 382 964	
4	Net Surplus /Deficit Refuse	= or > 0%		100%	Within the required norm.
			Total Refuse Revenue	5 705 360	
			Total Refuse Expenditure	-	
5	Net Surplus /Deficit Sanitation and Waste Water	= or > 0%		100%	Within the required norm.
			Total Sanitation and Water Waste Revenue	10 301 577	
			Total Sanitation and Water Waste Expenditure	-	

APPENDIX H

EMTHANJENI LOCAL MUNICIPALITY

RATIO ANALYSIS

B. Distribution Losses					
1	Electricity Distribution Losses (Percentage)	7% - 10%	Number of units purchased and/or generated	21% 57 021 523	The distribution losses are outside the normal norm. Management has implemented processes to identify the reason for the losses.
			Number of units sold	44 956 334	
2	Water Distribution Losses (Percentage)	15% - 30%	Number of kilolitres purchased and/or purified	36% 1 814 390	The distribution losses are outside the normal norm. Management has implemented processes to identify the reason for the losses.
			Number of kilolitres sold	1 162 846	
C. Revenue Management					
1	Revenue Growth (%)	= CPI	CPI	13% 7%	Within the required norm.
			Total Revenue (Previous)	175 489 516	
			Total Revenue (Current)	198 285 066	
2	Revenue Growth (%) - Excluding capital grants	= CPI	CPI	16% 6%	Within the required norm.
			Total Revenue Exl.Capital (Previous)	120 528 048	
			Total Revenue Exl.Capital (Current)	139 430 909	
D. Expenditure Management					
1	Creditors Payment Period (Trade Creditors)	30 days	Trade Creditors	3 days 715 752	Within the required norm.
			Contracted Services	7 227 685	
			Repairs and Maintenance	11 610 873	
			General expenses	19 997 152	
			Bulk Purchases	43 535 580	
			Capital Credit Purchases (Capital Credit Purchases refers to additions of Investment Property and Property, Plant and Equipment)	21 550 288	
2	Irregular, Fruitless and Wasteful and Unauthorised Expenditure / Total Operating Expenditure	0%	Irregular, Fruitless and Wasteful and Unauthorised Expenditure	73% 192 342 686	The main contributor is the overspending of votes, mainly due non-cash items such as the provision for doubtful debt and depreciation expense. Furthermore, certain weaknesses exists with the execution of the SCM Policy, resulting in irregular expenditure.
			Total Operating Expenditure	265 065 843	
			Taxation Expense	-	
3	Remuneration as % of Total Operating Expenditure	25% - 40%	Employee/personnel related cost	24% 59 893 633	Within the required norm.
			Councillors Remuneration	4 157 184	
			Total Operating Expenditure	265 065 843	
			Taxation Expense	-	
4	Contracted Services % of Total Operating Expenditure	2% - 5%	Contracted Services	3% 7 227 685	Within the required norm.
			Total Operating Expenditure	265 065 843	
			Taxation Expense	-	
E. Grant Dependency					
1	Own funded Capital Expenditure (Internally generated funds + Borrowings) to Total Capital Expenditure	None	Internally generated funds	651% 134 237 604	It is evident from this ratio, that the municipality will be able to finance the capital required to ensure that service delivery is maintained in the municipal area. This supports the going concern assumption.
			Borrowings	5 988 903	
			Total Capital Expenditure	21 550 288	
2	Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure	None	Internally generated funds	623% 134 237 604	It is evident from this ratio, that the municipality will be able to finance the capital required to ensure that service delivery is maintained in the municipal area. This supports the going concern
			Total Capital Expenditure	21 550 288	
3	Own Source Revenue to Total Operating Revenue (Including Agency Revenue)	None	Total Revenue	70% 198 285 066	Currently, 'own source' revenue is in excess of 66% of the total revenue generated. This is a clear indicator that the municipality does not rely heavily on government funding and is a going concern.
			Government grant and subsidies	58 854 156	
			Public contributions and Donations	-	
			Capital Grants	-	

APPENDIX H
EMTHANJENI LOCAL MUNICIPALITY
RATIO ANALYSIS

3. BUDGET IMPLEMENTATION

1	Capital Expenditure Budget Implementation Indicator	95% - 100%		103%	Although the capital budget was overspent, management is of the opinion that this was required to ensure that the necessary infrastructure is developed for service delivery.
			Actual Capital Expenditure	21 550 288	
			Budget Capital Expenditure	20 834 000	
2	Operating Expenditure Budget Implementation Indicator	95% - 100%		144%	This is the result of the annua depreciation expense and the significant increase in the provision for doubtful debt.
			Actual Operating Expenditure	265 065 843	
			Budget Operating Expenditure	183 695 000	
3	Operating Revenue Budget Implementation Indicator	95% - 100%		102%	In the 2011/2012 financial year, preliminary figures showed a decrease in the provision for doubtful debt (reversal). This was taken into account during the preparation of the 2013/2014 budget as the 2012/2013 provision (and relating entries) were not calculated (and processed). This did however not realise and
			Actual Operating Revenue	198 285 066	
			Budget Operating Revenue	194 170 000	
4	Service Charges and Property Rates Revenue Budget Implementation Indicator	95% - 100%		100%	Within the required norm.
			Actual Service Charges and Property Rates Revenue	112 690 285	
			Budget Service Charges and Property Rates Revenue	113 106 000	

Interpretation of results

	The green colour indicates that the result is within the norm and is acceptable
	The red colour indicates that the result is not acceptable and corrective actions/plans should be put in place to improve the results.
	Data should be captured in the blue colour cell to calculate a ratio.
#	In situations where the results are not within the acceptable norm, corrective actions/plans should be taken and referenced